1984

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1985 | Commission file number 0-7423

RAPID-AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	15-0587446 (I.R.S. Employer Identification No.)
888 Seventh Avenue, New York, New York (Address of principal executive offices)	10106 (Zip Code)

Registrant's telephone number, including area code: 212-621-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
7-1/2% Sinking Fund Subordinated Debentures, due May 15, 1985 6% Sinking Fund Subordinated Debentures, due August 15, 1988 7% Subordinated Debentures (1969 Issue), due May 15, 1994 7% Subordinated Debentures (1972 Issue), due May 15, 1994 12% Sinking Fund Subordinated Debentures, due January 15, 1999 10-3/4% Sinking Fund Subordinated Debentures, due December 1, 2003 10-3/4% Sinking Fund Subordinated Debentures, due October 1, 2004 11% Sinking Fund Subordinated Debentures, due October 1, 2005	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
10% Sinking Fund Subordinated Debentures, due August 1, 2006 15% Sinking Fund Subordinated Debentures, due November 15, 2008 11-3/4% Sinking Fund Subordinated Debentures, due August 15, 2009 Redeemable Debenture Purchase Warrants, expiring May 15, 1994	Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
14-1/2% Senior Subordinated Notes, due March 1, 1994 Serial Zero Coupon Senior Subordinated Debentures, due March 1, 1986 through March 1, 2007	Pacific Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

State the aggregate market value of the voting stock held by non-affiliates of the registrant.

None held by non-affiliates.

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practical date.

Class	Outstanding at April 19, 1985
Common Stock, par value $.01 per share	1,461,364 shares

Documents incorporated by reference.

None

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Introductory Note

Registrant, a Delaware corporation formerly named Kenton Corporation ("Kenton"), is the successor to the former Rapid-American Corporation, a Delaware corporation ("Old Rapid"), which was merged (the "Merger") into Registrant on January 31, 1981, at which time the name of Registrant, as the surviving corporation of the Merger, was changed to "Rapid-American Corporation." As a result of the Merger, Registrant became a privately-held corporation owned 60% by Riklis Family Corporation, whose name was subsequently changed to Rapid-American Holding Corporation ("Holding"), and 40% by American Financial Corporation ("AFC"). During December 1984, Holding acquired all of the common stock of Registrant owned by AFC and delivered to AFC its promissory note in the principal amount of $110,000,000 payable on January 15, 1985. On January 15, 1985, Holding privately placed $110,000,000 of 16% notes payable in 1995 (the "16% Notes"). The proceeds were used by Holding to pay its promissory note to AFC. In connection with the private placement, Holding exchanged the common stock of Registrant it acquired from AFC for shares of a newly created preferred stock of Registrant. See Note 9 to Financial Statements. The 16% Notes are secured by the shares of preferred stock.

As a result of the foregoing, Holding now owns 100% of the capital stock of Registrant. In excess of 99% of the voting power of Holding is held by World Wide Distributors, Inc., a Delaware corporation ("World Wide"), which is a wholly-owned subsidiary of KGA Industries, Inc., a Delaware corporation ("KGA"). Meshulam Riklis, Chairman of the Board, President, and Chief Executive Officer of Registrant, owns 100% of the outstanding capital stock of KGA.

All references to "Rapid" in this report include both constituent corporations to the Merger (i.e., Kenton and Old Rapid), and all references to Kenton herein are to Registrant prior to the Merger.

PART I.

Item 1. Business.

GENERAL

Rapid is engaged (a) through its subsidiary, McCrory Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McCrory"), in retail merchandising, (b) through its subsidiary, Schenley Industries, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "Schenley"), in the production, importation, and sale of alcoholic beverages under various brand names, and (c) through its subsidiary, McGregor Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McGregor"), in the manufacture, distribution, and sale of a variety of consumer products and the licensing of several trademarks.

Effective October 27, 1983, McGregor, which until then had been a wholly-owned subsidiary of Rapid, publicly sold 2,250,000 shares of its common stock and received approximately $37,000,000 in net proceeds. After such sale, Rapid owned approximately 53.8% of McGregor's common stock. In January 1985, Rapid purchased 80,000 shares of McGregor's common stock in the open market for approximately $1,800,000 which increased its ownership to approximately 55.5%. In March 1985, Rapid acquired the minority interest in McGregor for approximately $50,000,000 in cash. See Note 4 to Financial Statements.

During December 1983 through March 1984, McGregor acquired approximately 61% of the common stock of Faberge, Incorporated ("Faberge") for approximately $100,000,000 in cash. In August 1984, McGregor acquired the minority interest in Faberge for an aggregate of approximately $70,000,000 principal amount of McGregor's 15-1/2% sinking fund subordinated notes due 1994. See Note 4 to Financial Statements.

During March 1984, a joint venture in which McCrory had a 50% interest acquired 55% of the common stock of HRT Industries, Inc. ("HRT") for $18,000,000 in cash. In January 1985, McCrory purchased the remaining 50% interest in the joint venture for $13,225,000 in cash. During April 1985, McCrory acquired the minority interest in HRT for an aggregate of approximately $24,000,000 principal amount of McCrory's 14-1/2% subordinated notes due 1988. See Note 3 to Financial Statements.

During October 1984, McCrory sold all of the capital stock of its wholly-owned subsidiary Otasco, Inc. to an investor group principally comprised of employees, including members of senior management, of Otasco, Inc. The sale was at approximate book value as of January 31, 1984, which was paid in cash and a $21,000,000 note bearing interest at 15-3/4% per annum, of which $6,000,000 is due no later than October 22, 1989 and $15,000,000 is due in 1994. The note is secured by a pledge of all of the capital stock of Otasco, Inc. In addition, McCrory will receive four payments of $3,000,000 each, on the seventh, eighth, ninth and tenth anniversaries of the closing, for a covenant not to compete. See Note 2 to Financial Statements. Otasco, Inc. sold automotive and home accessories in approximately 290 company-owned stores in the southeast and southwest United States, and, in addition, supplied merchandise and merchandising aids to approximately 310 associate stores which were owned by third parties in the same geographical areas.

During April 1985, McCrory sold all of the capital stock of its subsidiary, Lerner Stores Corporation ("Lerner"), to The Limited, Inc. for approximately $297,000,000 in cash. See Note 2 to Financial Statements. Lerner operated approximately 800 apparel specialty stores specializing in the sale of women's and children's apparel under the trade names of "Lerner Shops," "Lerner," and "Jenny Lane."

At January 31, 1985, Rapid and its subsidiaries employed approximately 26,000 persons.

FINANCING ARRANGEMENTS

Working capital requirements have been satisfied primarily from operations, sale of assets and borrowings. Reference is made to Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 8 and 14 to Financial Statements for a description of various financing arrangements of Rapid and its subsidiaries.

SEGMENT INFORMATION

The following table sets forth the identifiable assets of each major business segment of Rapid at January 31, 1985, 1984, and 1983:

IDENTIFIABLE ASSETS	January 31, 1985	January 31, 1984	January 31, 1983
	(In Millions)		
Retail Merchandising:			
McCrory Stores	$ 340.3	$ 248.3	$ 207.2
HRT	173.8	-	-
Gault	6.7	6.6	6.7
Alcoholic Beverages - Schenley	560.2	527.9	728.2
Consumer Products:			
McGregor	114.8	97.0	71.8
Faberge	215.6	13.7	-
Others	-	5.9	9.5
Investments in Nonconsolidated Subsidiaries	8.6	28.6	32.1
Marketable Securities and Other Investments	286.8	49.9	14.1
Assets Held for Sale	208.1 *	449.6	417.5
Other Corporate Assets	207.9	125.1	103.4
Total	$2,122.8	$1,552.6	$1,590.5

* Net of related liabilities.

Net sales of foreign operations, export sales, and sales to any individual customer each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

The contribution of each of the major business segments to consolidated net sales and operating profit from continuing operations during the years ended January 31, 1985, 1984, and 1983 was as follows:

	Year Ended January 31,		
	1985	1984	1983
		(In Millions)	
Net Sales			
Retail Merchandising:			
McCrory Stores	$ 918	$ 818	$ 760
Gault	9	8	8
Alcoholic Beverages - Schenley	416	438	599
Consumer Products:			
McGregor	176	166	156
Faberge	232	-	-
Others	-	12	18
Operations held for sale to Stockholders and Affiliates	-	-	56
	$1,751	$1,442	$1,597
Operating Profit (Loss)			
Retail Merchandising:			
McCrory Stores	$ 84.5	$ 75.5 (a)	$ 48.2
Gault	.6	.5	.5
Alcoholic Beverages - Schenley	48.0 (b)	46.6 (b)	69.8
Consumer Products:			
McGregor	21.4	21.3	13.3
Faberge	19.3	-	-
Others	-	8.2 (c)	2.1
Operations held for sale to Stockholders and Affiliates	-	-	5.6
	173.8	152.1	139.5
Unallocated Costs:			
Interest and debt expense	180.5 (b)	117.0 (b)	138.9
General corporate expenses	40.1	40.8 (a)	30.7
Other (income) earned at the corporate level	(40.7)(e)	(23.8)(d)	(15.6)
Equity in (income) loss of nonconsolidated subsidiaries, etc.	3.0	(1.2)	(2.4)
Minority interest	3.6	1.2	-
	186.5	134.0	151.6
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and Extraordinary Items	$(12.7)	$ 18.1	$(12.1)

(a) Additional bonuses of $6.7 million earned by the operating personnel of McCrory Stores were charged to general corporate expenses.
(b) Excludes $16.5 and $16.3 million of intercompany interest income in the year ended January 31, 1985 and 1984, respectively, offset against interest expense of Rapid in consolidation.
(c) Includes pre-tax gain of $6.8 million from the sale of assets of the Shenandoah race track.
(d) Includes a non-taxable gain of $7.9 million attributable to the public sale by McGregor of 2,250,000 shares of its common stock.
(e) Includes a pre-tax gain of $4.7 million from the sales of aircraft.

RETAIL MERCHANDISING

At January 31, 1985, McCrory, through its McCrory Stores division and its subsidiary, J. J. Newberry Co. (collectively "McCrory Stores"), operated 723 variety stores under various trade names, including "McCrory," "McLellan," "H.L. Green," "J.J. Newberry," and "S.H. Kress" and through its subsidiary, HRT, operated 33 self-service discount department stores under the trade name "Zodys" and engaged in the manufacture of moderate-priced women's dresses. Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments.

At January 31, 1985, McCrory and its subsidiaries employed approximately 19,500 employees.

McCRORY STORES

McCrory Stores sells a broad mix of merchandise, including men's, women's and children's apparel, jewelry, hardware, home furnishings, dry goods, stationery, toys, toilet articles, and candy. Restaurants or luncheonettes are operated in 358 stores. McCrory Stores also operates five free-standing restaurants, including two Roy Rogers franchised fast food restaurants.

For each of the three years ended January 31, 1985, the categories set forth below accounted for approximately the following percentages of total store sales of McCrory Stores:

	Year Ended January 31,		
	1985	1984	1983
Apparel and accessories	28.8%	28.9%	29.4%
Hardware and home furnishings	16.5	15.8	14.8
Toiletries and beauty aids	9.2	9.0	8.1
Stationery	8.1	8.4	8.2
Dry goods and domestics	7.4	7.0	7.0
Toys, games, and books	6.9	6.4	6.6
Candy	6.1	6.1	5.2
Restaurants and luncheonettes	5.4	6.4	7.3
Concessions	3.8	4.3	4.7
All other merchandise	7.8	7.7	8.7

McCrory Stores operates in 37 states and the District of Columbia, with the largest concentration of stores in Pennsylvania, Florida, California, and New York. Most of the stores are located in cities and towns having a population of less than 50,000, although the population of the geographical trading area served is generally from three to 10 times larger; 448 stores are located in downtown or urban shopping centers; 229 are located in suburban and mall shopping centers; and 46 are located in rural areas.

The following table sets forth, for each of the three years ended January 31, 1985, the number of stores opened, closed, and in operation at the end of each year and the approximate average net sales per store:

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year-end	Approximate average net sales per store (1)
1983	18 (2)	29	718	$ 983,000
1984	19 (3)	21	716	1,065,000
1985	37 (4)	30	723	1,206,000

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(1) Excluding stores opened or closed during the year.
(2) Includes 14 Sterling stores acquired in February 1982.
(3) Includes 12 Rasco stores acquired in October 1983.
(4) Includes 16 Neisner stores, five L. H. Martin stores and nine Royal stores acquired in 1984.

The management of McCrory Stores has a policy of eliminating unprofitable stores based upon lease expirations, locations, and other relevant factors. It is anticipated that during the year ending January 31, 1986, 25 to 30 stores will be closed and approximately 50 stores and four free-standing restaurants will be opened. In addition, McCrory Stores is currently engaged in a major program of refurbishing many of its stores.

The minimum sales area of any store is approximately 1,700 square feet, the maximum sales area is approximately 71,000 square feet, and the average sales area of all stores is approximately 13,000 square feet; 269 stores have sales areas of under 10,000 square feet; 399 have sales areas from 10,000 to 24,999 square feet; 39 have sales areas from 25,000 to 40,000 square feet; and 16 have sales areas in excess of 40,000 square feet.

McCrory Stores consists of four operating regions with divisional support functions. Buying is divided into the broad categories of apparel and variety. The main distribution warehouse and buying center for such merchandise is located in York, Pennsylvania. In addition, relay stations are maintained at Albany, New York; Los Angeles, California; Stockertown, Pennsylvania; Greenville, South Carolina; Orlando, Florida; Columbus, Ohio; and York, Pennsylvania, to service the stores in their geographical area. A buying office for the west coast stores is located in Los Angeles, California.

McCrory Stores does not enter into long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names. No supplier accounts for more than 5% of McCrory Stores' purchases.

In common with many other retail businesses, McCrory Stores' business is seasonal, with sales and earnings concentrated in the fourth fiscal quarter ending on January 31.

Competition

The business of McCrory Stores is subject to active competition. The principal methods of competition are store location, selection, price, quality, service, and, to a lesser extent, style. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. McCrory Stores generally competes with other merchandising outlets selling comparable merchandise in the same geographical area, including chain, drug, and other stores which offer a broad product mix, supermarkets, discount stores, hardware stores, and numerous other independent local stores. While management of McCrory Stores believes that its stores are generally competitive with other stores in the areas in which they operate, increased competition has been experienced in recent years, particularly from certain nationwide mass merchandising chains.

Labor Relations

At January 31, 1985, McCrory Stores had approximately 16,000 employees, some of whom were employed part-time. During certain seasons as many as 3,000 temporary employees are added and peak employment is reached during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 10 years.

McCrory Stores has a noncontributory pension plan covering eligible employees.

Property

McCrory Stores' policy is to lease rather than own store premises whenever practicable. Most of the leases do not contain clauses authorizing cancellation by the lessee. At January 31, 1985, with the exception of a distribution warehouse (located in York, Pennsylvania, which comprises approximately 795,000 square feet) and one store location which are owned, all premises were leased. A number of leases contain provisions for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes and/or insurance.

In January 1985, McCrory entered into a contract to build a distribution warehouse in Laurens County, South Carolina. See Note 14 to Financial Statements. The new facility will contain approximately 558,000 square feet.

CANADIAN OPERATION

Gault Brothers, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments. Gault leases, through 1995, a 96,000 square foot warehouse in Vancouver, Canada, which is partially used for manufacturing operations. At January 31, 1985, Gault employed approximately 100 persons.

HRT

During December 1983, McCrory entered into a joint venture (the "Joint Venture") with Schottenstein Stores Corporation ("Schottenstein") for the purpose of investing in HRT, which had been operating under Chapter 11 of the United States Bankruptcy Code. Each party owned a 50% interest in the Joint Venture. In March 1984, the Joint Venture acquired 55% of the shares of HRT common stock for $18,000,000 and arranged for up to $35,000,000 of credit facilities for HRT.

During March 1984, McCrory acquired an option, which was exercised during January 1985, to purchase Schottenstein's interest in the Joint Venture for $13,225,000, against which a $1,000,000 non-refundable deposit had been previously paid. In connection therewith, McCrory agreed to guarantee certain credit facilities of HRT and, in addition, loaned Schottenstein $9,000,000, without interest, which was paid during January 1985. During April 1985, McCrory acquired the minority interest in HRT for an aggregate of approximately $24,000,000 principal amount of McCrory's 14-1/2% subordinated notes due May 31, 1988.

HRT currently operates, in the western part of the United States, 33 Zodys self-service discount department stores which carry a wide variety of merchandise. HRT is also engaged in the apparel manufacturing business through its subsidiary, Jody-Tootique, Inc., which designs and manufactures moderate-priced women's dresses.

At January 31, 1985, HRT had approximately 3,200 employees.

Miscellaneous

Substantially increased construction costs (including interest), zoning restrictions and ecological considerations, possible changes in shopping habits in the event of increases in energy costs or possible shortages, and certain other factors affecting the development of regional shopping centers have had, or may have, an effect on the rate of construction and expansion of large shopping centers and have resulted in significant increases in shopping center rentals. These factors may affect the nature and rate of expansion of McCrory.

ALCOHOLIC BEVERAGES

Schenley is engaged in the production, importation, and sale of alcoholic beverages, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials, and specialties.

In the year ended January 31, 1985, the largest contributor to Schenley's operating income was Dewar's White Label Scotch whisky. Dewar's White Label Scotch whisky has been distributed under contracts which have been renewed from time to time since 1936, the latest of which extends to March 31, 1988.

Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases, overseas distribution rights.

Domestic Alcoholic Beverages - Brands of domestic whiskies owned by Schenley include Old Charter, I. W. Harper, and J. W. Dant bourbon whiskies, and George Dickel Tennessee whisky. Schenley's principal brands of blended whiskies are Schenley Reserve and J. W. Dant. Schenley also owns and licenses to a third party the trademarks Ancient Age and Ancient Ancient Age bourbon whiskies. Schenley owns several brands of domestic gins (including Schenley and J. W. Dant), brandies (including Coronet and J. Bavet), vodkas (including Samovar, Schenley, and J. W. Dant), DuBouchett cordials, Cocktails for Two and other domestic spirit beverages. Schenley owns the Dubonnet brand in the U.S. and owns and distributes Cruzan, Old St. Croix, and Ron Carioca rums from the Virgin Islands.

Imported Alcoholic Beverages - Brands of imported beverages owned by Schenley or its foreign affiliates include J. W. Dant and Park & Tilford Scotch whiskies; MacNaughton, Grande Canadian, and J. W. Dant Canadian whiskies; Ole tequila; Fratelli Lambrusco and Siglo wines and Cruz Garcia Real Sangria. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include Dewar's White Label and Dewar's 12 Scotch whiskies, Glenordie single malt Scotch whisky, and Peter Dawson "Special" Scotch whisky; OFC Canadian whisky; Power's Gold Label Irish whisky; the Stock line of vermouth, brandy and cordials; Berentzen liqueur; Charles Heidsieck champagne; Lillet aperitif; and Joseph Drouhin, Fontanafredda, Hugel, La Cour Pavillon, Lamberti, Melini, and Delas Freres wines. The earliest expiration date of any agreement for distribution rights in the United States is December 31, 1985 and the latest expiration date is September 24, 2003.

The following table sets forth the approximate percentage of total case sales represented by the principal categories of alcoholic beverages sold by Schenley in the United States during each of the three years ended January 31, 1985. Each principal category has been profitable. However, Schenley's profits on the sale of straight whiskies and Scotch whiskies generally are

higher than on the sales of its other products. Approximately 54% of Schenley's case sales in the United States are of imported products, principally Scotch and Canadian whiskies.

	Year Ended January 31,		
	1985	1984	1983
Scotch whiskies	30.9%	28.0%	21.0%
Straight whiskies*	16.7	15.8	24.3
Canadian whiskies	12.2	11.1	8.9
Wines	11.5	14.8	18.9
Gins and vodkas	8.3	9.1	8.2
Blended whiskies	3.0	3.5	3.1
Rums, brandies, cocktails, cordials, etc.	17.4	17.7	15.6

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* During December 1982, Schenley sold its facilities in Frankfort, Kentucky and entered into a contract to supply the purchaser with Bourbon whiskey. In connection therewith Schenley licensed the purchaser to use the trademarks Ancient Age and Ancient Ancient Age. If all the commitments under the purchase agreement are fulfilled the ownership of the trademarks will be transferred to the purchaser.

Distribution and Marketing

In the domestic market, 18 states and Montgomery County, Maryland have established liquor distribution systems under which sales of alcoholic beverages are made directly through their liquor control boards and commissions. Schenley sells to all of these boards and commissions. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers. In the year ended January 31, 1985, no wholesale distributor accounted for more than 4% and no state control board accounted for more than 3.5% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley advertises its products extensively through various media, including magazines, newspapers, outdoor signs, and posters and point-of-sale promotional material, and, in addition, radio and television for wines. Advertising and promotional activities in the industry are, however, subject to regulation under Federal, state, and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley utilizes five independent advertising agencies. In the years ended January 31, 1985, 1984 and 1983 Schenley spent approximately $38,000,000, $42,000,000 and $46,000,000, respectively, for advertising.

Foreign Operations

Effective as of October 1, 1981, Schenley sold its wholly-owned subsidiaries in Canada. As part of the sale, Schenley Canada, Inc. (now an unrelated party) set aside for Schenley Canadian whisky in bulk for future bottling in Canada and subsequent importation and distribution in the United States. In addition, Schenley entered into a long-term supply contract, pursuant to which Schenley Canada, Inc. will supply Canadian whisky to Schenley for sale in the United States.

Schenley owns a 49.3% interest in AGE Bodegas Unidas, S.A., a Spanish company. See "Property" below for the plants and properties owned by the Spanish affiliate.

Major trademarks of Schenley are registered in various countries. Trademark licensing agreements are in effect with customers in eight foreign countries and overseas territories who produce products under the trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 13 foreign countries and overseas territories and dependencies on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley. The sales of Schenley to, and revenues derived from, these customers in foreign countries are not material.

Competition

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies. In the United States market there are many competitors, a number of which market both distilled spirits and wines. Competition is principally on the basis of price and product quality, with advertising an important factor. The management of Schenley believes that its products are generally competitive with respect to these factors.

Inventories and Raw Materials

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley and other distillers age their whiskies for four years or more. As a result, inventories in the industry are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, white oak barrels, flavoring, and bottling supplies. Schenley purchases its grains and the other materials from numerous sources. Schenley has phased-out the production of its own barrels. Since many of the raw materials used in the production of Schenley's alcoholic beverages are agricultural products, prices and costs are subject to the influences common to those products, including climate and governmental influences on production and marketing. Schenley purchases its requirements of barrels, bottles, and other packaging materials from various manufacturers and distributors.

Regulation and Taxation

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising, and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. Twenty states have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding prices charged in any other state. States in which alcoholic beverages are distributed through state agencies have, for many years, required suppliers to make similar warranties. Several states regulate the mark-up which may be made at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships, by local option, to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing, and supervision in other countries.

The products sold by Schenley are subject to Federal excise taxes on distilled spirits and wines as well as varying Federal customs duties on imports. The rate of Federal excise tax on all distilled spirits is $10.50 a proof gallon. Legislation has been passed by the United States Congress to raise the Federal excise tax on distilled spirits to $12.50 a proof gallon, effective October 1, 1985. Distilled spirits are subject to other excise taxes, the most important of which are state gallonage taxes, varying in amount from $1.75 to $6.50 a wine gallon. Imported distilled spirits and wines are also subject to customs duties at varying rates.

The law with respect to the establishment and operation of distilled spirits plants provides for an "All-in-Bond" system. Under such system, the entire premises of a distilled spirits plant are treated as bonded premises, with certain exceptions, and the government has instituted a post-audit system for verifying proprietors' compliance with the law and regulations.

Labor Relations

At January 31, 1985, Schenley employed approximately 1,000 people in the United States.

Schenley has contracts covering wages, hours of employment, working conditions, and related matters with a number of labor unions, expiring at various dates to December 31, 1987, covering substantially all of the hourly-rated and certain of the salaried employees in the United States. In general, labor relations have been satisfactory and there have been no strikes in recent years that had a material effect on Schenley's overall business.

Schenley maintains noncontributory pension plans and other benefit plans, contributory and noncontributory, for its employees, and contributes to union pension and welfare plans.

Property

Schenley operates four plants for the production of distilled alcoholic beverages. These plants have an aggregate daily distilling capacity of approximately 95,000 proof gallons of whiskey or distilled spirits; facilities for bottling, under normal conditions, an aggregate of approximately 28,500 standard cases of product in an eight-hour day; and storage facilities for approximately 1,300,000 barrels of aged and aging distilled spirits. Schenley's partially-owned Spanish affiliate operates wineries with an aggregate daily production capacity of 23,700 cases. In addition, Schenley owns two inactive plants. Schenley also owns a commercial building in New York City containing approximately 117,000 square feet, which is leased to third parties.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana; Louisville, Kentucky; and Tullahoma, Tennessee. Schenley has a plant for the distillation of rum in the United States Virgin Islands. During the year ended January 31, 1984, Schenley closed its Schenley, Pennsylvania facility and sold its plant at Bardstown, Kentucky, as well as its cooperage facility at Louisville, Kentucky. During the year ended January 31, 1983, Schenley sold its plant and related facilities at Frankfort, Kentucky and closed its Fresno, California facility.

Schenley owns all of its distilleries and plants. They are generally of sound construction, and, except for the inactive plants, are adequately equipped for carrying on Schenley's business and are generally in good operating condition.

Environment

Schenley's plants are subject to Federal, state, and local pollution control regulations. Management of Schenley believes it is currently in full compliance with such regulations at all its plants in the continental United States and has not received any indication to the contrary from governmental authorities. No major capital expenditures for pollution control compliance are anticipated for these plants for the foreseeable future.

A wholly-owned subsidiary of Schenley, Virgin Islands Rum Industries, Ltd. ("VIRIL"), owns and operates a rum distillery in the United States Virgin Islands. The wastes from rum distillation are, and have for many years been, discharged directly into the ocean some 1,800 feet off the south shore of St. Croix. Accordingly, the disposition of these wastes is subject to regulation under the Federal Water Pollution Control Act. In 1975, VIRIL challenged the restrictive effluent limitations included in a draft discharge permit issued by the U.S. Environmental Protection Agency ("EPA"). A hearing on the matter commenced in July 1977, but has remained in recess since that time.

In September 1979, VIRIL, EPA, and the Virgin Islands Department of Conservation and Cultural Affairs ("DCCA") (the local agency responsible for enviromental preservation) entered into a tentative agreement under which VIRIL would construct, and place in operation by early 1983, an anaerobic

waste treatment facility at a projected cost of $3,500,000. The agreement also barred any attempt to impose civil or criminal penalties on VIRIL on account of its prior discharges. The Stipulation of Settlement was never executed although, until November 1981, all three parties acted as if it had been. Prior to November 1981, VIRIL acquired land for the treatment facility, hired a consulting engineer, and solicited and received bids for construction of the facility. On July 13, 1981, VIRIL filed a Request for Reconsideration with EPA. That Request, and supplements to it, argued in essence that VIRIL ought not be required to build the treatment facility because its effluence did not harm the environment and that VIRIL's competitive and economic circumstances had changed materially since 1979.

On April 9, 1982, EPA published a notice in the Federal Register calling for public comment on the pending VIRIL Request for Reconsideration and setting May 24, 1982, as the date such comments would be due. VIRIL filed two sets of comments in response to the Agency's notice. VIRIL has also requested that EPA give it assurances that discharges during the pendency of VIRIL's Request for Reconsideration would not be considered in violation of Federal law.

In August 1984, the Governor of the Virgin Islands issued a determination in accordance with paragraph 214(g)(2) of P.L. 98-67, which in effect, exempts VIRIL from the discharge requirements of the Clean Water Act. By this action, the previous proceedings between VIRIL and the EPA have been rendered moot, and the Virgin Islands authorities now have the power to determine, under territorial law, the terms and conditions under which VIRIL will discharge its effluent.

VIRIL has submitted its completed Territorial Pollution Discharge Elimination System permit application to DCCA, as required, and issuance of a final and effective permit to VIRIL is pending. In the interim, VIRIL has requested permission from the DCCA to continue the discharge of its effluent without the final permit through September 1985.

CONSUMER PRODUCTS

McGregor, through its Divisions, manufactures (a) moderate-priced tailored suits and sport coats sold under the "Botany '500'," "Coat Tails," "Botany," "Worsted-Tex," "Fashion Park," "Stein Bloch," "Broadstreet's," "Cartier," and "Bert Pulitzer" trademarks and under private labels; (b) men's, women's and children's athletic shirts, sport shirts and T-shirts sold under the "Anvil," "Wonderknit," "Scoreboard," "Bert Pulitzer," "Botany" and "Botany '500'" trademarks and under private labels; and (c) women's nightwear, gowns and robes sold under the "Gilead" and "Gillies" trademarks and under private labels. McGregor's wholly-owned subsidiary, Faberge, is an international consumer products company principally engaged in the development, manufacture, and worldwide distribution of popular and prestige fragrances, toiletries, haircare products, and accessories sold under the "Faberge," "Brut," "Aqua Net," "Babe" and various other trademarks. In addition, McGregor licenses others to use the "McGregor," "Botany '500'," "Faberge," "Brut," "Babe," and "Bert Pulitzer" trademarks.

Sales and Distribution

McGregor sells directly to retail outlets throughout the United States through its own sales force. The men's clothing line is advertised on television and radio and in newspapers, national magazines, and trade publications.

Faberge's products are serviced by its own sales force, which is augmented by manufacturers' representatives. Its products are sold directly to retail outlets and, in some cases, through wholesalers.

McGregor licenses the trademarks "McGregor," "Botany '500'," and "Bert Pulitzer," for use on men's, women's and children's apparel products and "Faberge," "Brut," Babe" and other trademarks on various consumer products. These licensed products are sold both in the United States and abroad. McGregor provides a number of services to its licensees, including overall design and marketing services.

Raw Materials

Certain apparel operations of McGregor uses both knit and woven cloth in the manufacture of apparel. The shirt line has knitting mills where most of the various types of knitted cloth required in the operations are fabricated in their entirety from yarn. Other McGregor operations purchase their finished cloth requirements primarily from domestic suppliers.

McGregor purchases the major portion of its menswear clothing fabric from domestic suppliers. Raw materials for Faberge's products are purchased from a number of sources. No supplier accounts for more than 5% of material purchased by McGregor.

Labor Relations

At January 31, 1985, McGregor employed approximately 5,500 persons. Approximately 30% of the production employees, together with certain other employees, are covered by two collective bargaining agreements and several units maintain pension, profit-sharing and other benefit plans for their employees, and contribute to union pension and welfare plans. One of the collective bargaining agreements covering approximately 1,600 employees, expires June 1, 1985. The other collective bargaining agreement, covering approximately 100 employees, expired in February 1984, and a new agreement is currently being discussed. Labor relations have been harmonious and there have been no major work stoppages in recent years.

Competition

McGregor faces active competition with respect to all of its businesses. The principal methods of competition include price, product quality, ability to meet shipment schedules, selling and servicing the trade, direct and indirect advertising to the consumer, and the utilization of

special promotional programs to deal with particular requirements, opportunities or market segments. The management of McGregor believes it is generally competitive with respect to these factors.

Property

McGregor operates 18 manufacturing, warehousing and distribution, facilities in the United States of which nine, containing approximately 1,800,000 square feet of space, are owned, and nine, containing approximately 900,000 square feet of space, are leased. In addition, McGregor owns or leases ten facilities containing approximately 500,000 square feet in Canada and Europe. McGregor also operates a number of sales offices. Management believes that McGregor's manufacturing facilities and equipment are capable of meeting operating requirements.

Item 2. Properties.

Rapid leases approximately 300,000 square feet of office space at 888 Seventh Avenue, New York, New York (under a lease expiring in 2005), of which Rapid and certain of its subsidiaries occupy approximately 48,000 square feet for executive and administrative offices and the balance is subleased. Rapid leases approximately 100,000 square feet of office space at 645 Fifth Avenue, New York, New York (under a lease expiring in the year 2000), which is subleased.

During February 1985, Rapid agreed to lease approximately 25,000 square feet of office space at 725 Fifth Avenue, New York, New York (under a lease expiring in the year 2000). Rapid will move its corporate executive offices to this location in the latter part of 1985 and will sublet a comparable amount of the space currently occupied at 888 Seventh Avenue.

Reference is made to Item 1 - "Business" for information concerning the stores and the manufacturing, warehousing and distribution facilities of Rapid and its subsidiaries.

Item 3. Legal Proceedings.

Various legal proceedings are pending relating to transactions in which Rapid or its subsidiaries have been involved. These lawsuits have been brought against various defendants, including Rapid, its subsidiaries and predecessors, and certain of their officers and directors. See "Introductory Note."

Asbestos Litigation

Rapid and Glen Alden Corporation ("Glen Alden"), a predecessor of Rapid, together with other corporations which are allegedly miners, manufacturers and distributors of asbestos or products containing asbestos, are defendants in a number of actions filed in several states alleging injuries to the health, or wrongful death, of individuals exposed to asbestos

or products containing asbestos. There are currently pending approximately 151 such actions against Rapid or Glen Alden in which an aggregate of approximately 196 individuals are seeking compensatory and punitive damages. In addition to such actions by individuals, a number of property damage actions have been commenced by states, municipalities, political subdivisions, and boards of education against corporations whose asbestos products were allegedly installed in public buildings and against corporations responsible for such installations. Such property damage actions typically seek very large compensatory and punitive damages from numerous defendants and seek judgments requiring the defendants to remove or encapsulate the asbestos, and indemnify plaintiffs from liability that may be imposed upon plaintiffs in favor of individuals who sustain impairment to their health. Rapid was a named defendant in six such actions and has been dismissed without prejudice from three of such actions. It is likely that additional asbestos actions by individuals and by states, municipalities and others will be commenced in the future.

Neither Rapid nor Glen Alden is or ever was directly involved in the mining, manufacture, sale, distribution or installation of asbestos or products containing asbestos. In 1966, Glen Alden acquired 28% of the outstanding shares of The Philip Carey Manufacturing Company, an Ohio corporation ("Old Carey"). Since its incorporation in 1888, Old Carey had been engaged in, among other things, the manufacture of products containing asbestos fibers and since 1915, through a Canadian subsidiary, it owned and operated asbestos mines and mills. On June 1, 1967, Old Carey was merged into Glen Alden and the assets, properties and businesses of Old Carey were contemporaneously transferred to a newly-formed corporation called The Philip Carey Manufacturing Company, an Ohio corporation ("New Carey"), which was then a wholly-owned subsidiary of Glen Alden. As part of such transaction, New Carey contractually assumed and indemnifed Glen Alden (the "Indemnification Agreement") against all of the liabilities of Old Carey to which Glen Alden might become subject as a result of the aforesaid merger. From and after June 1, 1967, the asbestos business formerly conducted by Old Carey was carried on by New Carey. In April 1970, New Carey merged with Briggs Manufacturing Company, in which Glen Alden then had a 48% interest, to form Panacon Corporation ("Panacon"). On April 17, 1972, Glen Alden sold all of its shares of Panacon, representing approximately 89% of the outstanding shares thereof, to The Celotex Corporation ("Celotex"), a wholly-owned subsidiary of Jim Walter Corporation. Thereafter, Panacon was merged into Celotex. In all of the asbestos actions in which Rapid or Glen Alden is a party, each has asserted or will assert claims for indemnification against Celotex as the successor in interest to New Carey and Panacon under the Indemnification Agreement. To date, in certain of the actions in which such claims have been made, Celotex has denied Rapid's and Glen Alden's claims and has asserted affirmative defenses with respect thereto and in other such actions, Celotex has been deemed to have denied such claims. Although in certain of the actions, Celotex has admitted that it is the successor in interest of Old Carey and New Carey, Celotex has asserted cross-claims against Rapid or Glen Alden for indemnification or contribution as to judgments for compensatory or punitive damages which may be rendered against Celotex. Rapid and Glen Alden have denied the claims asserted by Celotex. Should any of the actions in which Rapid is a party result in judgments against Rapid, Rapid believes that it would be entitled to and would seek indemnification from Celotex under the

Indemnification Agreement. Rapid has no knowledge regarding the financial condition of Celotex. To the extent that any judgments which might be entered against Rapid are not satisfied by Celotex under the provisions of the Indemnification Agreement, Rapid would seek indemnification from its insurance carriers and those which had insured Old Carey and New Carey.

To date none of the asbestos cases in which Rapid or Glen Alden is a defendant has been tried, and except for the settlement of four actions in which an insurance carrier on behalf of Rapid has paid an aggregate of $15,850, neither Rapid nor Glen Alden nor any insurance carrier on behalf of either has been required to pay any sums in connection with any of the asbestos actions which have been settled. In June and July 1981, a jury rendered verdicts for $91,000 in compensatory damages and $95,000 in punitive damages against Celotex in 14 asbestos actions which had been consolidated for trial. Celotex thereafter settled with plaintiffs in such actions. Rapid or Glen Alden had originally been defendants in each of the actions, but had been dismissed by stipulation among all parties. In agreeing to permit Rapid or Glen Alden to be dismissed from the actions, Celotex reserved the right to seek indemnification or contribution from Rapid or Glen Alden in the event a judgment for punitive damages in the actions was entered against Celotex.

Since 1966, when Glen Alden first acquired its interest in Old Carey, primary liability coverage for bodily injury and property damage has been maintained by Rapid or Glen Alden having aggregate annual maximum policy limits in the sum of $3,000,000. Rapid believes that the product liability coverage under its primary policies for 1969 through 1973 may have been exhausted. In addition to primary insurance, Rapid and Glen Alden have maintained excess liability insurance coverage substantially over the amount of the primary insurance coverage. Commencing with 1985, coverage for asbestos related damage and injuries has been excluded from most excess liability insurance policies.

While the aggregate amount of damages sought to be recovered by plaintiffs in the actions in which Rapid or Glen Alden is a defendant is substantial, the actual amounts of various settlements of actions in which Rapid or Glen Alden was not required to contribute to a settlement fund have been significantly less than the amounts demanded in plaintiffs' complaints, and payment of the amounts of the settlements has been divided among various of the settling defendants or their insurance carriers.

Litigation Regarding the Acquisition of Faberge

On or about February 9, 1984, Gibbons, Green, Van Amerongen ("Gibbons Green") commenced an action in the Supreme Court of the State of New York, County of New York against Faberge, McGregor, Meshulam Riklis, McGregor's directors, and Faberge's directors who were in office on January 19, 1984. The complaint alleges that as a result of the Faberge Board of Directors' approval of a merger agreement with McGregor, Faberge became obligated under a letter of intent with Gibbons Green (the "Gibbons Green Letter"), which provided for a proposed leveraged buy-out of Faberge, to pay Gibbons Green $4,000,000, which obligation Faberge breached, and that Faberge also breached its obligation to honor the option to purchase 500,000 shares of Faberge

common stock that had been granted to Gibbons Green by Faberge. The complaint further alleges that McGregor, Meshulam Riklis, and McGregor's directors intentionally caused Faberge to breach its commitments to Gibbons Green. Gibbons Green seeks to obtain payment from Faberge of $4,000,000 under the Gibbons Green Letter and $1,000,000 in damages for the alleged breach of its option; to recover damages in the amount of $5,000,000, plus attorneys' fees and expenses from McGregor, McGregor's directors, and Meshulam Riklis; and, in the event that Faberge is excused from performance under the Gibbons Green Letter, to recover damages in the amount of $5,000,000 plus attorneys' fees and expenses from the directors of Faberge.

On or about February 1, 1984, an action was instituted in the United States District Court for the Southern District of New York by Doe Diamond, allegedly a shareholder of Faberge, on behalf of all shareholders of Faberge similarly situated. The complaint names as defendants Faberge, Faberge's directors who were in office on January 19, 1984 and a former director, Gibbons Green, and McGregor. The complaint alleges fraud, illegality, and waste of corporate assets on the part of Faberge and the individual defendants by reason of certain employment contracts and amendments to employment contracts covering certain executive officers of Faberge, the payment of allegedly excessive compensation, and the breach by one of such officers of his employment contract. The complaint also alleges waste of corporate assets and breach of their fiduciary duties on the part of Faberge directors in connection with the payments of money and the grant of a stock option to Gibbons Green provided for in the Gibbons Green Letter, and that Gibbons Green assisted in such breach. The complaint further alleges that the price offered by McGregor in its tender offer for Faberge was unfair to the shareholders of Faberge in that it was reduced to account for the allegedly wrongful employment agreements and that the tender offer materials omitted to state material facts, including the alleged illegality of the various employment agreements and other alleged misconduct of the individual defendants, in violation of Section 14(e) of the Securities Exchange Act of 1934, as amended. The complaint seeks, among other things, to enjoin the tender offer (which was consummated during March 1984), to require the individual defendants to account to the plaintiff and the class represented by her for alleged profits; damages in an unspecified amount; and an award to the plaintiff of her costs and expenses of the action, including reasonable attorneys' fees.

The merger of a wholly-owned subsidiary of McGregor and Faberge having been consummated, McGregor and Faberge intend to attempt to obtain the dismissal of the foregoing derivative action on the grounds that plaintiffs lack standing to pursue derivative suits on behalf of Faberge.

Litigation Regarding McGregor Going Private

On or about December 26, 1984, Joseph E. Kovacs commenced an action which is pending in the Supreme Court of the State of New York against Rapid, McGregor and the members of McGregor's Board of Directors. The action was commenced as a class action on behalf of plaintiff and all other owners of the common stock of McGregor on December 6, 1984. The action allegedly arises from the announcement on or about December 6, 1984 by Rapid that it had

offered to take McGregor private for $23 per share. The complaint alleges, inter alia, that the plan to take McGregor private is an attempt to force out the public shareholders of McGregor at a price which is far less than the current value of McGregor's shares, assets or business and was fixed arbitrarily by Rapid as part of a plan to obtain for itself ownership of McGregor's assets and businesses at the lowest possible price and to obtain for itself benefits disproportionate to those to be received by the public shareholders of McGregor. The complaint further alleges that defendants have not sought out other possible purchasers of the assets or stock of McGregor in a manner designed to obtain the highest possible price for McGregor's shareholders and that defendants did not (1) undertake independent evaluation of McGregor's worth as a potential merger or acquisition candidate; (2) effectively attempt to dispose of McGregor's assets; or (3) act so that the interests of the public shareholders were protected. The complaint seeks a judgment enjoining the transaction or, if the transaction is consummated prior to such judgment, setting the transaction aside; requiring defendants to compensate plaintiff and the members of the class for any losses or damages suffered by them; and awarding plaintiff costs and disbursements including legal, accounting and experts' fees.

On or about February 22, 1985, Fairbear Enterprises commenced an action which is pending in the Supreme Court of the State of New York, New York County against Rapid, McGregor, Drexel Burnham Lambert, Incorporated ("Drexel") and the directors of Rapid. The action was commenced on behalf of the plaintiff and all other owners of the common stock of McGregor. The action allegedly arises from the issuance by McGregor of a notice of special meeting of shareholders, which was held on March 13, 1985, to vote on a plan of merger whereby McGregor will be taken private for $23 per share. The complaint alleges, inter alia, that the plan to take McGregor private is an attempt to freeze out the public shareholders of McGregor at a price which is far less than the current value of McGregor's shares, assets or business and which was fixed arbitrarily by Rapid in concert with Drexel as part of a plan to obtain for Rapid ownership of McGregor's assets and businesses at the lowest possible price and then obtain for Rapid benefits disproportionate to those to be received by the public shareholders of McGregor. The complaint alleges that the individuals are in a fiduciary relationship with the plaintiff class. It further alleges that at the time of the initial public offering in October 1983, McGregor was engaged in the manufacture, distribution and sale of apparel and the licensing of trademarks to the apparel industry. During 1984, according to the complaint, McGregor acquired Faberge which significantly enhanced McGregor's future financial prospects. The acquisition of Faberge, however, caused McGregor to incur costs including inventory writedowns, severance pay obligations and other non-recurring items. In addition, plaintiff alleges that in September 1984, McGregor announced that its net income for fiscal year ending January 31, 1985 was expected to be between $1.50 and $1.75 per share but that it expected an increase to $2.50 to $3.00 a share during fiscal 1986. Plaintiff further alleges that Rapid's management determined not to share McGregor's future prospects with the public shareholders and announced in December 1984 that it intended to take McGregor private. Purportedly, Rapid then conspired with Drexel, which was beholden to Rapid for fees it had previously received from the McGregor public offering and other Rapid transactions. The directors of McGregor purportedly violated their fiduciary obligations to McGregor's public

shareholders and agreed to rubber-stamp whatever price was negotiated between Drexel and Rapid and made no effort to obtain an independent verification of the fairness of the price. The individual defendants are allegedly dominated and controlled by Rapid. The complaint also alleges that the transaction served no legitimate business purpose of McGregor and is an attempt by defendants to advance their interests to the detriment of McGregor's public shareholders in violation of defendants' fiduciary duties to those public shareholders. The complaint seeks a judgment, preliminarily and permanently, enjoining the merger or, in the event that it has been consummated prior to entry of final judgment, rescinding and setting it aside; ordering defendants to divest themselves of all profits obtained from the merger; and ordering an accounting as well as awarding costs and disbursements including attorneys' and experts' fees.

Litigation Regarding HRT Going Private

On or about October 5, 1984, an action was instituted in the Court of Chancery of the State of Delaware by Harry Lewis, allegedly a stockholder of HRT, on behalf of all stockholders of HRT similarly situated. The complaint names as defendants: HRT, the Joint Venture, McCrory, Schottenstein, Rapid, and certain directors of HRT. The complaint alleges that the proposed going private transaction announced in October 1984, pursuant to which the Joint Venture would acquire the remaining 45% of the shares of HRT's common stock not held by it, serves no legitimate business purpose of HRT but is part of an unlawful plan and scheme designed for the purpose of eliminating the minority stockholders of HRT and allowing the Joint Venture to acquire the entire equity interest in HRT for a fraudulently low and unfair price, and that, as a result of the foregoing, the defendants have willfully participated in or aided and abetted the perpetration of a fraud on, and have breached their fiduciary duty to, the minority stockholders of HRT. The complaint seeks, among other things, to enjoin the proposed going private transaction; to require the defendants to account to the plaintiff and to the class represented by him for alleged profits; an award of money damages in an unspecified amount; and an award to the plaintiff of his costs and expenses of the action, including reasonable attorneys', accountants' and experts' fees.

On or about November 27, 1984, an action was instituted in the Superior Court of the State of California for the County of Los Angeles by Lullaby Infant Wear Co., Inc., allegedly a stockholder of HRT, on behalf of all stockholders of HRT similarly situated. On or about the same date, a second action was instituted in the Superior Court of the State of California for the County of Los Angeles by Pay T.V. of Greater N.Y., Inc., also allegedly a stockholder of HRT, on behalf of all stockholders similarly situated. The complaint in each of the foregoing actions names as defendants: HRT, the Joint Venture, McCrory, Schottenstein, Rapid, and certain directors of HRT and contains allegations which are substantially identical to the allegations of the complaint in the Harry Lewis action discussed above. The complaint in each of the actions also seeks, among other things, to enjoin the proposed going private transaction; to require the defendants to account to the plaintiff and to the class represented by it for alleged profits; an award of money damages in an unspecified amount; and an award to the plaintiff of its costs and expenses of the action, including reasonable attorneys', accountants' and experts' fees.

Litigation Relating to Dialysis Facility

In March 1980, an action was commenced against Rapid by Century City Hospital seeking general damages in the sum of $8,400,000 and punitive damages in the sum of $25,200,000, plus costs, for breach of contract and tortious breach of contract. The complaint alleges, among other things, that as a result of the treatment of certain persons at the facility in September 1978, Rapid breached its lease agreement with Century City Hospital by failing to render and deliver dialysis treatments at the facility in accordance with professional standards and regulations adopted by the State of California Department of Health Services. The complaint further alleges that as a result of defendants' breaches and of their subsequent failure to notify plaintiff of the nature of their breaches, plaintiff was damaged in that the sale price of Century City Hospital was depressed and revenues from hospital services were diminished. The punitive damage claim has been dismissed by the court. On March 12, 1982, Century City Hospital filed a voluntary petition in bankruptcy in the United States Bankruptcy Court for the Central District of California. Such proceeding is currently pending. On January 24, 1984, the Court dismissed the action by reason of plaintiff's failure to prosecute.

Additional Litigation, etc.

Various other legal proceedings including governmental proceedings and investigations by Federal and state regulatory agencies having jurisdiction over aspects of the business and affairs of Rapid and its subsidiaries are pending against or otherwise relate to Rapid and its subsidiaries, involving miscellaneous causes of action arising from their businesses, including, but not limited to, income tax matters, commercial cases arising out of agreements or alleged agreements, personal injury and property damage matters, labor disputes, employment discrimination actions, and other actions. A proceeding is pending before the Environmental Protection Agency involving Schenley (see Item 1 - "Business-Alcoholic Beverages-Environment"). Management does not consider any of these proceedings or investigations to be material.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

As a result of the Merger (see "Introductory Note"), Rapid Common Stock is not publicly owned. The number of holders of record on April 19, 1985 of each class of equity securities of Rapid is set forth in the following table (see Item 12 - "Security Ownership of Certain Beneficial Owners and Management"):

Title of Class	Number of Holders of Record
Common Stock	1
Preferred Stock	1

During the years ended January 31, 1985 and 1984, cash dividends of $2.60 and $.75 per share, respectively, were declared on Rapid Common Stock. The Rapid Preferred Stock was issued on January 15, 1985, and no dividends have been declared to date.

Rapid

The indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006 (the "10% Debentures"), provides that Rapid will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent to January 31, 1981 shall exceed the sum of (a) 85% of the aggregate of the (i) consolidated net income of Old Rapid (see "Introductory Note") for the fiscal year ended January 31, 1981, less any dividends paid by Old Rapid on shares of its capital stock during such fiscal year and (ii) consolidated net income of Rapid subsequent to January 31, 1981, (b) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1981 of capital stock of Rapid, and (c) the aggregate net proceeds received by Rapid from the issue or sale of any indebtedness of Rapid converted after January 31, 1981 into capital stock of Rapid; provided, however, that such provisions will not prevent the payment of any dividend within 60 days after the date of declaration if the payment complied with the foregoing provisions on the date of declaration, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock. At January 31, 1985, the amount available under the foregoing provisions was approximately $87,000,000.

The indentures for Rapid's 14-1/2% Senior Subordinated Notes, due 1994 ("14-1/2% Notes") and Serial Zero Coupon Senior Subordinated Debentures, due 1985 through 2007 ("Zero Debentures"), each provides that subsequent to January 31, 1984, Rapid will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock), (ii) make or permit to remain outstanding any loans to Affiliates (as defined) or Executive Officers (as defined) of Rapid or any Subsidiary (as defined), or (iii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any Subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes shall exceed the sum of (a) $100,000,000, (b) 50% of consolidated net income (as defined) of Rapid, subsequent to January 31, 1984 or 66-2/3% of consolidated net income of Rapid subsequent to the date that all Guarantees (as defined) have been extinguished (the indentures provide that on or before January 31, 1990, all Guarantees of Affiliates in existence on January 31, 1984 will be extinguished and, in addition, that Rapid will not enter into any additional Guarantees for the benefit of Affiliates or Executive Officers), (c) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1984 of capital stock of Rapid (other than mandatory redeemable preferred stock), and (d) the carrying value of any indebtedness (including mandatory redeemable preferred stock) of Rapid converted after January 31, 1984 into capital stock of Rapid; provided, however, that such provisions will not prevent the payment of any dividend, or the making of any loan or the purchase, redemption, or other acquisition of capital stock within 60 days after the date of declaration of such dividend or commitment to make such loan, purchase, redemption or other acquisition, if the payment complied with the foregoing provisions on the date of declaration or commitment, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of Rapid's capital stock. The initial determination date for compliance with the foregoing was January 31, 1985, and at such date the amount available under the above provisions was approximately $27,000,000. The indenture for the 14-1/2% Notes also provides that, under certain circumstances, a portion of the proceeds in excess of $150,000,000 from the sale of assets not in the ordinary course of business by Rapid and its subsidiaries will be used to retire certain indebtedness, which may include the 14-1/2% Notes and Zero Debentures.

McCrory

McCrory's guaranty agreement of certain indebtedness of HRT to a bank contains a restriction limiting the payment of dividends to 50% of McCrory's consolidated net income (as defined). In addition, the guaranty agreement contains other material restrictions on McCrory and its subsidiaries relating to advances to Rapid and incurring indebtedness. As of January 31, 1985, the amount of dividends which could be paid to Rapid by McCrory was approximately $21,000,000.

The indenture for McCrory's 15-3/4% Senior Subordinated Notes, due 1991, and Senior Subordinated Exchangeable Variable Rate Notes (collectively the "Notes"), provides that subsequent to January 31, 1984, McCrory will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than cash dividends on McCrory's preference stocks outstanding as of the date of the indenture and dividends or distributions payable in its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any Subsidiary (as defined) to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent to January 31, 1984 shall exceed the sum of (a) $20,000,000, (b) 75% of Consolidated Net Income (as defined) of McCrory subsequent to January 31, 1984, (c) the aggregate net proceeds received by McCrory from the issue or sale after January 31, 1984 of capital stock (other than mandatory redeemable preferred stock) of McCrory, and (d) the net carrying value of any indebtedness of McCrory (including mandatory redeemable preferred stock) converted after January 31, 1984 into capital stock of McCrory; provided, however, that such provisions will not prevent the payment of any dividend or the purchase, redemption or other acquisition of capital stock within 60 days after the date of declaration of such dividend or commitment to make such purchase, redemption or other acquisition if the payment complied with the foregoing provisions on the date of declaration or commitment, or the retirement of any shares of McCrory's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock. The indenture also provides that McCrory will not make any guarantees for the benefit of an Affiliate (as defined) or any Executive Officer (as defined) of Rapid, McCrory or any Subsidiary. At January 31, 1985, the amount available under the foregoing provisions was approximately $53,000,000.

The indenture provides that at any time or from time to time McCrory may make interest bearing advances to Rapid; provided, however, that at the time of each such advance the Ratio of Earnings to Fixed Charges (as defined) for the 12-month period ended at the end of the fiscal quarter preceding the fiscal quarter in which such advance is made, after giving effect to such advance and any related borrowings, is at least equal to or exceeds 1.5 to 1. Any guarantees by McCrory of obligations of Rapid shall be treated on a pro forma basis as an advance. Any dividends payable to Rapid on its shares of McCrory capital stock and payments due to Rapid on account of federal, state or local taxes under tax-sharing arrangements between McCrory and Rapid shall not be treated as repayments of any outstanding advances and such payments for dividends and taxes may be made without regard to the foregoing restriction. To the extent an advance is made after the end of a fiscal quarter for which the Ratio of Earnings to Fixed Charges for the 12-month period then ended is less than 1.5 to 1 a portion or all of such advance will be repaid.

The indenture also provides that, under certain circumstances, a portion of the proceeds in excess of $80,000,000 from the sale of assets not in the ordinary course of business by McCrory and its subsidiaries will be used to retire Notes.

McGregor

A McGregor loan agreement with a group of banks prohibits the making of dividends, loans, or advances without the prior consent of such banks. The indenture for McGregor's 15-1/2% Subordinated Notes, due 1994, provides that subsequent to January 28, 1984, McGregor will not (a) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock and the payment of the previously declared $10,000,000 dividend to Rapid which is reflected as a liability of McGregor) or (b) purchase, redeem or otherwise acquire or retire for value any of its capital stock (other than repurchases of sinking fund preferred stock) or permit any subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes shall exceed the sum of (i) 50% of Consolidated Net Income (as defined) subsequent to January 28, 1984, (ii) $5,000,000, (iii) the aggregate net proceeds received by McGregor from the issue or sale subsequent to January 28, 1984, of capital stock (other than sinking fund preferred stock), and (iv) the net carrying value of any indebtedness (including sinking fund preferred stock) converted subsequent to January 28, 1984, into capital stock. Notwithstanding the foregoing, no dividend or other distribution, purchase, or redemption may be paid or made unless the consolidated net worth of McGregor is at least $55,000,000 after giving effect to such transaction; provided, however, that the foregoing provisions will not prevent the payment of any dividend or the purchase, redemption or other acquisition of capital stock within 60 days after the date of declaration of such dividend or commitment to make such purchase, redemption or other acquisition if the payment complied with the foregoing provisions on the date of declaration or commitment, or the retirement of any shares of McGregor's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock.

See Note 8 to Financial Statements.

Item 6. Selected Financial Data.

	Year Ended January 31,				
	1985	1984	1983	1982	1981
	(Dollars in Millions)				
Net sales from continuing operations	$1,751.1	$1,442.5	$1,597.2	$1,637.6	$1,643.5
Income (loss) from continuing operations before extraordinary items	(7.9)	12.9	(5.9)	(36.3)	(15.4)
Total assets	2,122.8	1,552.6	1,590.5	1,564.1	1,561.7
Long-term debt	1,318.0	720.8	779.4	881.0	855.2
Noncurrent capital lease obligations	66.6	45.3	51.6	65.3	75.7
Other:					
Return on sales	-	.9%	-	-	-
Working capital at year-end	614.6	301.8	336.3	457.5	467.8
Current ratio	2.4	1.7	1.6	2.1	2.1
Ratio of earnings from continuing operations to fixed charges and preferred dividends combined	*	1.13	*	*	*
Number of employees at year-end	26,000	37,000	40,000	45,000	46,000

* Earnings from continuing operations were not sufficient to cover fixed charges and preferred dividends combined.

Supplemental Information on Changing Prices Required by the FASB

The United States in recent years has experienced varying rates of inflation. Inflation tends to distort the traditional measurement of income and capital. The Financial Accounting Standards Board (FASB) recognized this problem and issued Statement No. 33 - Financial Reporting and Changing Prices, as amended. This statement requires companies to demonstrate the effects of inflation and changing prices on their operations by supplementing their historical financial statements with data that demonstrate the effects of inflation.

Current cost data are determined based upon year-end prices for inventory and property of the type and age used in the company's businesses. Data for inventory and cost of goods sold are generally based upon current invoices, price lists and quotations from suppliers. Data for fixed assets are generally based upon indices which approximate the current cost of acquiring used equipment and facilities.

Rapid principally uses the LIFO inventory method in valuing its inventories. Accordingly, since the LIFO method matches current costs with current revenues, Rapid has already made some allowance for the effects of general inflation and changing prices in its historical financial statements.

The following data were prepared in accordance with the FASB Statement to demonstrate the effects of changing prices.

Loss from Continuing Operations and Changing Prices

	Year Ended January 31, 1985	
	As reported	Adjusted for specific price changes (current costs)
	(In Millions)	
Net sales and other revenues	$1,816	$1,816
Cost of goods sold	1,138	1,163
Selling, general and administrative expenses	477	477
Interest and debt expense	180	180
Depreciation and amortization	29	58
Minority interest	4	4
Provision for income taxes*	(4)	(4)
	1,824	1,878
Loss from continuing operations before extraordinary charge	$ (8)	$ (62)
Gain from decline in purchasing power of net amounts owed		$ 37
Increase in current cost of inventory, property, plant and equipment held during the year (based on specific price changes)		$ 71
Effect of increase in general price level		34
Increase in current cost of inventory, property, plant and equipment held during the year (based on specific price changes) net of changes in the general price level		$ 37

* In accordance with FASB Statement No. 33 the provision for income taxes is not adjusted for the effects of changing prices.

At January 31, 1985 and 1984, the current cost of inventory was approximately $568,000,000 and $658,000,000, respectively, and property, plant and equipment (net of accumulated depreciation and amortization) was approximately $652,000,000 and $775,000,000, respectively.

Five year comparison of selected supplementary financial data adjusted for changing prices in average fiscal 1984 dollars

	Year Ended January 31,				
	1985	1984	1983	1982	1981
	(In Millions, Except Price Index)				
Net sales from continuing operations	$1,751	$1,503	$1,718	$1,863	$2,058
Current cost information					
Loss from continuing operations before extraordinary charge	$ (62)	$ (50)	$ (73)	$ (95)	$ (92)
Gain from decline in purchasing power of net amounts owed	$ 37	$ 41	$ 42	$ 102	$ 150
Net assets at year-end	$ 638	$ 674	$ 648	$ 711	$ 774
Other information					
Average consumer price index.	312.0	299.4	290.0	274.2	249.1

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

During fiscal year 1984, interest expense increased principally as a result of the public sales of senior subordinated notes and debentures and the debt issued in connection with the acquisition of Faberge. The proceeds from the public sales were invested, in part, in inventories, property, plant and equipment, repurchase of certain debt securities and in marketable securities. Other revenues increased as a result of dividends and interest received on the marketable securities.

The statement of consolidated operations for fiscal 1984 includes the equity in the net loss of HRT, since the date of acquisition, and minority interest in both McGregor and Faberge. Each of these companies is now a wholly-owned subsidiary.

Net sales and related costs and expenses of continuing operations increased in fiscal 1984 principally as a result of the inclusion of Faberge's sales and revenues of $239,800,000 and related costs and expenses of $220,000,000.

Net sales and related costs and expenses of continuing operations decreased in fiscal 1983 principally due to the sale, during December 1982, of Schenley's Ancient Age operation. During fiscal year 1983, interest expense declined due to reduced debt levels and lower prime rates. Other revenues in fiscal 1983 includes a pre-tax gain of $6.8 million from the sale of assets of the Shenandoah race track and a non-taxable gain of $7.9 million attributable to the public sale by McGregor of 2,250,000 shares of its common stock. Minority interest in McGregor resulted from the public sale by McGregor of its common stock.

Liquidity and Capital Resources

Rapid and its subsidiaries, during the three years ended January 31, 1985, have funded debt repayments, capital additions, security purchases, dividends and amounts due from stockholders and affiliates, principally through earnings from operations, depreciation and amortization of property and debt discount, sales of long-term debt, deferred income taxes and sales of assets. Seasonal working capital requirements have generally been provided by borrowings under bank credit agreements, bankers acceptances and the sale of commercial paper.

Rapid anticipates that repayments of long-term debt and expenditures for capital additions will be provided from general corporate funds or other sources, which may include proceeds from borrowings, sales of assets or refinancings.

Restrictions on the net assets of Rapid's subsidiaries have not had and are not expected to have an impact on Rapid's ability to meet its cash obligations. See Note 8 to Financial Statements.

See Item 6 - "Selected Financial Data," for the effects of changing prices on Rapid's Financial Statements.

Item 8. Financial Statements and Supplementary Data.

See accompanying Index to Financial Statements and Schedules on page F-1.

Item 9. Disagreements on Accounting and Financial Disclosure.

None.

PART III.

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth the principal occupations and certain related information for Rapid's directors and executive officers as of April 19, 1985:

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Mona R. Ackerman (a)	39	President of Rapid-American Foundation (charitable contributions); member of the Executive Committee of Rapid since 1981; senior editor, Jove Books, from March 1979 to January 1981.	1976	-
Harold S. Divine	63	Vice Chairman of the Board of Rapid for more than five years; Executive Vice President of McCrory since January 1983; director of HRT since March 1984; prior thereto senior executive of McCrory for more than five years.	1976	1977
Arie Genger	39	Private investor; Civil Servant-Government of Israel from January 1982 to January 1983; prior thereto a senior executive of Rapid and certain of its subsidiaries for more than five years.	1978	-
Charles L. Jarvie	48	Senior Vice President of Rapid since February 1985; President and Chief Executive Officer of Schenley since February 1984; President of Fidelity Distributors Co. from March 1983 to February 1984; President and Chief Operating Officer of Dr. Pepper Co. from 1980 to 1983.	1985	1985

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Seymour Kleinman	66	Senior partner, law firm of Golenbock and Barell, and Lecturer in Finance and Secured Transactions, Columbia University Law School, for more than five years.	1979	-
Leonard C. Lane	66	Chairman of the Board of ILC Industries, Inc. ("ILC") (primarily a manufacturer of advanced electronic data converters) for more than five years; Vice Chairman of the Board of Rapid from February 1981 to March 1982; Executive Vice President of Rapid from April 1969 to February 1982.	1960	-
Abraham G. Levin	66	Senior partner, law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid, for more than five years.	1981	-
Daniel J. Manella	59	Executive Vice President of Rapid since February 1981; Chairman of the Board, and Chief Executive Officer of McGregor since May 1981; Chairman of the Board, President, and Chief Executive Officer of Faberge since March 1984; Chairman of the Board of Kenton from September 1978 to January 1981, and Chief Executive Officer of Kenton from February 1979 to January 1981.	1980	1981
Dan Palmon (b)	43	Associate Professor of Accounting, Rutgers University since September 1980; prior thereto Assistant Professor of Accounting, New York University, Graduate School of Business, for more than five years.	1979	-

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Stephen L. Pistner	53	Senior Vice President of Rapid since February 1985; Chairman of the Board, President and Chief Executive Officer of McCrory since February 1985; President and Chief Operating Officer of Montgomery Ward & Co. from March 1981 to January 1985; President and Chief Operating Officer of Dayton Hudson Corp. from December 1977 to February 1981.	1985	1985
Ira D. Riklis (a)	30	President of Ice Cream Ira's Inc. and Specialty Store Group, Inc. (engaged in the operation of retail food services) since 1979; director of McGregor since August 1983, Faberge since March 1984, HRT since March 1984 and The Computer Factory Inc. since February 1984.	1981	-
Marcia Riklis (a)	34	Vice President of Rapid since May 1980; Assistant to the Chairman of Rapid from October 1977 to May 1980; Vice Chairman of the Board of Schenley since May 1983; director of HRT since March 1984 and of AITS, Inc. ("AITS") (hotel and casino in Las Vegas, Nevada) for more than five years (see Item 13 - "Certain Relationships and Related Transactions," paragraph 5).	1981	1980

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Meshulam Riklis (a)	61	Chairman of the Board and Chief Executive Officer of Rapid for more than five years and President since September 1980; director of McCrory for more than five years; Chairman of the Board and President of McCrory from June 1981 and March 1982, respectively, to January 1985; prior thereto Vice Chairman of the Board of McCrory from May 1977 to June 1981; Chairman of the Board of Schenley from January 1982 to May 1983; Co-Chairman of the Board and President of AITS for more than five years.	1955	1955
Leo D. Stone (b)	70	Financial Consultant; Lecturer in Finance, University of South Florida, from September 1974 to June 1981; director of McGregor since August 1983, Faberge since March 1984, and Chairman of the Board of Central Reserve Life Corporation for more than five years.	1979	-
Helen H. Updike	44	Associate Dean, Hofstra College of Liberal Arts and Science since February 1984; Chairperson, Department of Economics and Geography, Hofstra University from September 1981 to January 1984; Assistant Professor of Economics, Hofstra University from September 1978 to January 1981.	1979	-
Stuart H. Aarons	74	Secretary of Rapid for more than five years.	-	1972
Bernard J. Blaney	61	Vice President and Treasurer of Rapid and director and Vice President-Finance of McCrory for more than five years.	-	1976

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Michael J. Magenheim	43	Controller and Assistant Treasurer of Rapid for more than five years.	-	1972

(a) Member of the Executive Committee.
(b) Member of the Audit Committee.

There are no family relationships among any of the directors or executive officers of Rapid, except that Mona R. Ackerman, Marcia Riklis, and Ira D. Riklis are Meshulam Riklis' children.

The term of office of each director expires at the next annual meeting of Rapid's stockholders or when such director's successor is elected and has duly qualified. There are no arrangements or understandings between any of the directors of Rapid and any other person pursuant to which such person was selected as a director of Rapid. Seymour Kleinman, Dan Palmon and Helen H. Updike each receive $60,000 per annum for serving as directors and Leo D. Stone receives $45,000 per annum. Mr. Stone also receives $15,000 per annum for serving as a director of McGregor. Mona R. Ackerman, Marcia Riklis and Ira D. Riklis each receive $300,000 per annum for serving as directors and as members of the Executive Committee of the Board of Directors. None of the other directors of Rapid receives any compensation for serving as a director. Each of the executive officers of Rapid holds office at the pleasure of the Board of Directors. There are no arrangements or understandings between any of the executive officers of Rapid and any other person pursuant to which such person was selected as an executive officer of Rapid.

During the past five years, neither Rapid nor any of its officers or directors has been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors) or was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction whereby such party was or is subject to a judgment, decree or final order enjoining further violations of, or prohibiting activities subject to, Federal or state securities laws or finding any violation of such laws.

Item 11. Executive Compensation.

The following table sets forth for the fiscal year ended January 31, 1985, the cash compensation of the five most highly compensated executive officers of Rapid and its subsidiaries, and the cash compensation of such executive officers and all other executive officers of Rapid as a group:

Name of individual or number in group	Capacities in which served	Cash compensation (1)
Meshulam Riklis	Chairman of the Board, President, and Chief Executive Officer of Rapid and McCrory	$ 907,413
Howard S. Feldman	Chairman of the Board of Schenley	805,325
Daniel J. Manella	Chairman of the Board and Chief Executive Officer of McGregor and Faberge and Executive Vice President of Rapid	767,413 (2)
Harold S. Divine	Vice Chairman of the Board of Rapid and Executive Vice President of McCrory	517,413 (2)
Charles L. Jarvie	President and Chief Executive Officer of Schenley	503,825
All executive officers as a group (7 in number)		4,341,215

(1) All of the individuals named in the table and certain other executive officers are covered by a medical insurance plan which covers certain executives. Under this plan, premiums are paid to an insurance company and the insurance company pays benefits, in accordance with the terms of the policy, directly to the executives, based upon claims submitted. The amount of the premium paid to the insurance company for each of the named individuals and the group is included in the table. Does not include interest differential with regard to loans made at less than the current prime rates (see Item 13 - "Certain Relationships and Related Transactions").
(2) Excludes $286,000, representing the final payment of a Kenton bonus.

All seven executive officers participate in pension plans sponsored by subsidiaries of Rapid. Messrs. Riklis, Manella, Divine, and two others participate in a McCrory corporate plan. Messrs. Feldman and Jarvie participate in a Schenley plan. These plans are "career-average" salary plans in which the annual benefit is determined by a summation of a certain percentage of compensation for each year of credited service.

The McCrory corporate plan is a noncontributory defined benefit pension plan which covers employees of McCrory's home office. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of $15,000 plus 1.5% of such average compensation in excess of $15,000 for each year of participation up to January 1, 1980 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year. Compensation does not, however, include any special bonus. The maximum annual benefit currently provided under this plan is $90,000. The estimated annual benefits payable at retirement at normal retirement age as a straight life annuity to Messrs. Riklis, Manella, and Divine are $136,425, $74,163, and $60,599, respectively. As a result of the Tax Equity and Fiscal Responsibility Act of 1982, normal retirement benefits are subject to a maximum of the greater of $90,000 or the individual's accrued benefit at December 31, 1982. Mr. Riklis had an accrued benefit of $136,425 as of December 31, 1982, and will therefore retain the right to receive this benefit.

The Schenley plan is a noncontributory defined benefit pension plan. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of $13,000 plus 1.5% of such average compensation in excess of $13,000 for each year of participation up to January 1, 1980 plus 1.2% of compensation up to the Social Security Wage Base and 1.7% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. The plan was frozen on December 31, 1984 and no further benefits will accrue after that date. The compensation covered by this plan is base salary. The maximum annual benefit currently provided under this plan is $90,000. The estimated annual benefits payable at retirement at normal retirement age as a straight life annuity to Mr. Feldman is $84,000. Mr. Feldman reached normal retirement age in January 1983 and will not accrue any additional benefits under this plan.

The following table sets forth at January 31, 1985, the maximum estimated retirement benefits (including contractual obligations) payable to the persons and group specified in the table above:

	Estimated annual retirement benefits		
Name of individual or number in group	Pension plans	Employment contracts	Total
Meshulam Riklis	$136,425	-	$136,425
Howard S. Feldman	84,000	$41,000	125,000
Daniel J. Manella	74,163	25,837	100,000
Harold S. Divine	60,599	39,401	100,000
Charles L. Jarvie	-	50,000	50,000
All executive officers as a group (7 in number)	509,558	156,238	665,796

In order to facilitate the performance of their business duties, Rapid provides certain of its officers and directors with the use of corporate owned or leased automobiles and aircraft, hotel accommodations, and certain club memberships.

Employment Agreements

Meshulam Riklis

Effective November 20, 1982, Rapid entered into an employment contract with Mr. Riklis, as Chief Executive Officer, for a period of five years. The contract provided for an annual salary of $600,000, plus incentive compensation at the rate of 1% of Rapid's Net Income (as defined) in each fiscal year. Such $600,000 annual salary was payable in any event, even if Mr. Riklis' employment was terminated by death, disability or discharge with or without cause. This contract superseded all previous contracts, with the exception of a contract with McCrory, which provided that under certain circumstances Mr. Riklis would receive from McCrory a retirement allowance of $15,000 per year. The contract provided for deferred compensation to be earned at the rate of not less than $50,000 per year, payable following termination of Mr. Riklis' employment. The contract also provided for the payment of a retirement allowance for life following the termination of Mr. Riklis' employment at the rate of $100,000 per year, and upon Mr. Riklis' death, payments were to continue to his widow at the rate of $50,000 per year for her life; any pension plan benefits were to be deducted, and payments were to be subject to other limits and restrictions on competition with Rapid, and were to be reduced by the receipt of disability payments. As a condition to such retirement payments Mr. Riklis had to be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Riklis and his wife forfeited their retirement benefits if, within one year after termination of employment, Mr. Riklis engaged directly or indirectly in any activity competitive with the business of Rapid or any division or subsidiary thereof. In the event Mr. Riklis became incapacitated during employment, and such incapacity continued until termination of his employment, Mr. Riklis was to receive disability benefits at the rate of $100,000 per year for life, less any amounts earned from other employment. In the event of Mr. Riklis' death, his widow or his surviving children or his estate was to receive death benefits of $500,000, plus one year's incentive compensation (in addition to the incentive compensation earned by, but not yet paid to, Mr. Riklis prior to his death) payable over a 10 year period. The contract provided that certain insurance policies owned by Rapid be assigned to Mr. Riklis. Rapid continued to pay the premiums on such policies, and has the right to apply the cash surrender value of the policies to the payment of such premiums.

As an inducement to enter into the contract, Rapid agreed to make certain loans to Mr. Riklis in the aggregate principal amount of $25,000,000. For a description of such loans, see Item 13 - "Certain Relationships and Related Transactions," paragraph 2.

Rapid has agreed to enter into a five year agreement (the "New Agreement") with World Wide (see "Introductory Note" and Item 12 - "Security Ownership of Certain Beneficial Owners and Management"), pursuant to which World Wide will furnish to Rapid and its subsidiaries the management services of Mr. Riklis for $2,900,000 per year. Rapid intends each year to make an allocation among itself and its various subsidiaries as to the amount of such compensation to be charged to each such entity. The New Agreement will supersede Mr. Riklis' contract described above and will provide for the same

deferred compensation, retirement, insurance, liability, and death benefits. Mr. Riklis will continue in his current positions with Rapid and will receive compensation of $100,000 per annum. The new agreement will be effective as of February 1, 1985.

Howard S. Feldman

Mr. Feldman is employed by Schenley as its Chairman of the Board under a five year employment agreement, effective February 1, 1984, at an annual base salary of $375,000 per year. The employment of Mr. Feldman may be terminated after nine consecutive months of disability, in which event he is to receive payments equal to one-half of his annual salary for the period of his disability, provided that such payments shall not be made beyond the remaining term of his employment agreement. If Mr. Feldman dies while employed, his estate shall be paid his salary for the month in which he dies. Additionally, Schenley will maintain an insurance policy on Mr. Feldman's life in an amount not less than 125% of his annual salary, payable to his estate. Upon termination of Mr. Feldman's employment for any reason, he shall receive during his life an annual retirement allowance of $125,000 less any amounts to which he is entitled pursuant to any pension, retirement or similar plan of Schenley, plus reimbursement for medical expenses. Such retirement benefits are contingent upon his agreement not to engage in any business competitive with Schenley or its subsidiaries and to render consulting services to Schenley to the extent permitted by his health for up to 48 days per year. During the term of Mr. Feldman's employment and for five years thereafter he may not invest or engage in any business that directly or indirectly competes with, or is a significant supplier to, Schenley or any of its subsidiaries and may not employ any person who was an employee of Schenley or any of its subsidiaries for two years prior to employment by Mr. Feldman. See Item 13 - "Certain Relationships and Related Transactions," paragraph 28.

Daniel J. Manella

Mr. Manella, an Executive Vice President and director of Rapid and a Senior Executive of McCrory, is employed under an employment contract with McCrory effective December 15, 1983 through January 31, 1989. The contract superseded all prior contracts with McCrory and its affiliated companies except for his employment contract with McGregor. The contract provides for a base salary of not less than $500,000 a year and an aggregate bonus of $500,000, which has been paid. During the period of Mr. Manella's employment under the contract, McCrory will maintain insurance on his life in an amount not less than 125% of the annual rate of Mr. Manella's base salary. If Mr. Manella becomes incapacitated for a period of at least 11 consecutive months, and his employment is terminated, or if his employment ends on January 31, 1989 because of the expiration of his period of employment he will receive a retirement benefit of $8,333.33 a month until his death, less disability payments under any disability benefit plans. If Mr. Manella dies and is survived by his wife, she will receive monthly retirement benefits of $4,166.66 a month beginning when Mr. Manella dies until her death, less any pension plan benefits. The contract provides for a severance bonus of $7,000,000, payable to Mr. Manella or to the person designated by him in

writing during his lifetime or to his estate failing such designation within 60 days after the earliest to occur of the termination of the contract by (i) its expiration, (ii) his death or (iii) his disability. Mr. Manella forfeits any disability benefits and severance bonus, and his wife forfeits her monthly retirement benefits, if within two years after termination of his employment Mr. Manella engages directly or indirectly, in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Manella is discharged for serious misconduct. Deferred compensation of $100,000 earned by Mr. Manella under a prior employment agreement with Rapid will be paid to Mr. Manella, and after his death to the person designated by him in writing in his lifetime or, failing such designation to his estate, within 30 days after written request therefor. All of Mr. Manella's benefits under his contract with McCrory are reduced by any benefits payable to Mr. Manella under his contract with McGregor, which provides for, among other things, an annual salary of not less than $200,000. See Item 13 - "Certain Relationships and Related Transactions," paragraph 18.

Harold S. Divine

Mr. Divine, a Vice Chairman of the Board of Rapid and an Executive Vice President of McCrory, is employed as a senior executive under an employment contract with McCrory effective December 15, 1983 through January 31, 1989. The contract superseded all prior contracts with McCrory and its affiliated companies. The contract provides for a base salary of not less than $500,000 a year. During the period of Mr. Divine's employment under the contract, McCrory will maintain insurance on his life in an amount not less than 125% of the annual rate of Mr. Divine's base salary. If Mr. Divine becomes incapacitated for a period of at least 11 consecutive months and his employment is terminated or if his employment ends on January 31, 1989 because of the expiration of his period of employment he will receive $8,333.33 a month until his death less disability payments under any disability benefit plans. If Mr. Divine dies and is survived by his wife, she will receive monthly retirement benefits of $4,166.66 a month beginning when Mr. Divine dies until her death less any pension plan benefits. The contract provides for a severance bonus of $7,000,000, payable to Mr. Divine or to the person designated by him in writing during his lifetime or to his estate failing such designation within 60 days after the earliest to occur of the termination of the contract by (i) its expiration, (ii) his death or (iii) his disability. Mr. Divine forfeits his disability benefits and severance bonus and his wife forfeits her monthly retirement benefits if within two years after termination of his employment Mr. Divine engages directly or indirectly in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Divine is discharged for serious misconduct. See Item 13 - "Certain Relationships and Related Transactions," paragraph 19.

Charles L. Jarvie

Mr. Jarvie, a Senior Vice President and director of Rapid, is employed by Schenley as its President and Chief Executive Officer under a five year employment agreement effective February 1, 1984 through January 31, 1989, with two one year options exercisable solely by him. As partial compensation,

Schenley has agreed to pay Mr. Jarvie an annual salary of $500,000. In addition, Schenley agreed to pay to Mr. Jarvie a bonus in the sum of $5,000,000 on January 31, 1989, if Mr. Jarvie is then in Schenley's employ or if his employment has been terminated by Schenley prior thereto for any reason other than disability or discharge for serious misconduct. If Mr. Jarvie's employment ceases prior to January 31, 1989 because of disability or death such bonus will be paid but shall be proportionately reduced. The agreement also provides for an additional bonus of $5,000,000 payable to Mr. Jarvie based on Schenley's operating profits during the period of his employment. If Mr. Jarvie dies during the term of the agreement, his executors or administrators will be paid his monthly base salary for the month in which he died and for the month thereafter, together with all other payments provided in the agreement. If Mr. Jarvie becomes incapacitated during the term of the agreement for a period of at least six consecutive calendar months his employment may be terminated. Upon termination of Mr. Jarvie's employment, he will receive, after he becomes 65 years old, a monthly retirement benefit of $4,166.66 if his employment terminates on or after January 31, 1989, or $8,333.33 if on or after January 31, 1994, or $12,500.00 if on or after January 31, 1999, in each case less the payments made under any pension plans. If his wife survives Mr. Jarvie, she will receive one-half of the retirement benefits. The agreement also provides that Mr. Jarvie and his wife shall continue to be a participant in Schenley's medical plan after the termination of his employment other than by voluntary termination or discharge for cause, until his death and the death of his wife. Mr. Jarvie has agreed that he will not at any time while in Schenley's employ and for five years thereafter compete directly or indirectly with any of the businesses engaged in by Schenley during his employment. See Item 13 - "Certain Relationships and Related Transactions," paragraph 27.

Stephen L. Pistner

Mr. Pistner, a Senior Vice President and director of Rapid and Chairman, President and Chief Executive Officer of McCrory, is employed under a five year employment contract with McCrory effective February 1, 1985. The contract provides for an annual salary of $2,500,000. In addition, the contract provides that Mr. Pistner shall be paid a special residence allowance of $4,000 per month during the term thereof. The contract provides that McCrory shall maintain an insurance policy on the life of Mr. Pistner payable to his estate or designated beneficiaries in the face amount of $5,000,000 during the term of his contract, or if terminated prior to expiration by reason of Mr. Pistner's disability, until December 31, 1989. In the event Mr. Pistner becomes disabled for a period of more than six consecutive months, or if he shall become disabled for an aggregate of more than nine months during any eighteen-month period, or in the event he shall become permanently disabled, his contract may be terminated, in which event the contract provides for disability payments of $50,000 per month for a period of 60 months, or in the event of his death during such period, until the month in which he dies. In the event Mr. Pistner's employment contract is terminated by McCrory other than by reason of his discharge for serious misconduct or his failure to perform in any material respect his material obligations under the contract or in the event of his disability, McCrory shall be liable to Mr. Pistner for the discounted value of the full amount of his salary for the balance of the term

of the contract. In the event Mr. Pistner elects to cease his employment by McCrory at any time prior to the expiration of the contract, Mr. Pistner has agreed that he will not compete, directly or indirectly, for a period of one year, with McCrory in any business conducted by McCrory in any geographical area in which such business is conducted. Rapid has agreed to be jointly and severally liable with McCrory for the payment of all sums and the performance of all obligations on the part of McCrory under the contract.

Leonard C. Lane

Mr. Lane, a director of Rapid, was employed as a senior executive officer under an employment agreement with Rapid. In accordance with a severance agreement, dated February 3, 1982, the employment agreement and Mr. Lane's employment by Rapid were terminated on March 31, 1982. Pursuant to the severance agreement (i) Mr. Lane continues to participate in Rapid's medical plan until the earlier of March 31, 1992 or his death, (ii) in lieu of the retirement benefits provided for by his employment agreement, Mr. Lane receives monthly retirement benefits at the rate of $100,000 per year for life and upon his death, the monthly retirement benefits will continue to his present wife, if she survives him and is married to him at the time of his death, during her life at the rate of $50,000 per year, (iii) if Mr. Lane dies prior to March 31, 1992 and his wife does not survive him the monthly retirement benefits at the rate of $50,000 per year shall be paid to Mr. Lane's estate until March 31, 1992, and (iv) the $336,250 of deferred compensation under the employment agreement is being paid to Mr. Lane in 60 equal monthly instalments which began April 30, 1982. See Item 13 - "Certain Relationships and Related Transactions," paragraph 16.

Arie Genger

Mr. Genger, a director of Rapid, was employed as a senior executive officer under an employment agreement with McCrory. In accordance with a severance agreement, dated December 1, 1981, the employment agreement and Mr. Genger's employment by McCrory were terminated on January 31, 1982. Pursuant to the severance agreement (i) McCrory will keep $2,000,000 of life insurance in force and effect through January 1987, at which time Mr. Genger or his designee can purchase such policy by delivering to McCrory a promissory note in the amount of approximately $81,000 payable January 10, 1989, and designating McCrory as beneficiary of the policy to the extent of approximately $92,000, (ii) Mr. Genger will continue to participate in McCrory's medical plan for medical services rendered in the United States until the earlier of January 31, 1997 or his death, (iii) Mr. Genger is receiving monthly retirement benefits at the rate of $45,000 per year for life and upon his death the monthly retirement benefits will continue to his widow, during her life at the rate of $22,500 per year, and (iv) if Mr. Genger becomes physically or mentally disabled for a period of at least three consecutive months during the period through January 31, 1987, he shall be entitled to receive monthly disability payments for his life or until the disability or incapacity ends of $50,000 per year adjusted for cost of living increases and reduced by any payments under McCrory's disability plan. See Item 13 - "Certain Relationships and Related Transactions," paragraph 20.

Bernard J. Blaney

Mr. Blaney, Vice President - Finance, Treasurer and a director of McCrory and Vice President and Treasurer of Rapid, entered into a contract with McCrory effective July 1, 1981, to be employed as an executive through June 30, 1986, which is automatically renewable for an additional period of five years unless six months' prior notice of intention not to renew is given by either party. The contract superseded all prior contracts with McCrory and Rapid. The contract provides for an annual salary of not less than $250,000. If Mr. Blaney becomes incapacitated for a period of at least 11 consecutive months, his employment may be terminated, in which event he is to receive disability benefits at the rate of $50,000 per year, subject to certain reductions, until his 65th birthday. The contract also provides for the payment of a retirement allowance of $40,000 per year, less pension benefits, for life commencing at age 65 (or earlier upon disability), if the term of employment ends on June 30, 1986. In the event the contract is renewed for an additional period of five years the retirement allowance is increased to $50,000 per year. Upon Mr. Blaney's death his present wife, if she survives him, is to receive 50% of the retirement allowance during her lifetime. McCrory may, in its discretion, terminate the retirement allowance if, within one year after termination of Mr. Blaney's employment, he engages directly or indirectly in any activity competitive with the business of McCrory or any of its affiliated companies or if Mr. Blaney is discharged for serious misconduct. After the termination of Mr. Blaney's employment he shall be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. See Item 13 - "Certain Relationships and Related Transactions," paragraph 21.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information with respect to persons known by management to own beneficially more than 5% of any class of voting securities of Rapid as of April 19, 1985:

Title of Class	Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
Common Stock	Rapid-American Holding Corporation (a) 888 Seventh Avenue New York, NY 10106	1,461,364	100%

(a) In excess of 99% of the voting power of Holding is held by World Wide, a wholly-owned subsidiary of KGA. Meshulam Riklis owns 100% of the outstanding capital stock of KGA.

As a result of the Merger (see "Introductory Note"), Rapid became a privately-held corporation, and except as set forth herein, the directors and officers of Rapid do not own any equity securities of Rapid or any of its subsidiaries. During February 1981, Holding granted an option to purchase up to 97,424 shares of Rapid Common Stock (approximately 6.7% of the class) to a partnership, of which Abraham G. Levin, a director of Rapid, is the managing partner, composed of certain partners (and members of their families) of the law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid. The option is exercisable for a period of 30 years from the date of grant (subject to earlier termination upon a disposition by Holding of its shares of Rapid Common Stock) at an exercise price of $30.79 per share. In addition, during October 1983, Holding sold shares of its newly created class of exchangeable preferred stock, exchangeable at any time for an aggregate of approximately 6.7% of the outstanding shares of Rapid Common Stock, to two privately-held corporations, one of which is controlled by Harold S. Divine, a director of Rapid, and the other by a consultant to Rapid. The foregoing rights are subject to the security interests granted to Chemical Bank ("Chemical") in the shares of Rapid Common Stock owned by Holding, described below.

Rapid has been advised by Mr. Riklis that during 1981 he entered into an agreement with Chemical which restructured and restated Mr. Riklis' outstanding indebtedness to Chemical. The indebtedness is payable on December 31, 1985, with the portion representing principal, bearing interest at a fixed rate which is less than the current prime rate, and with the portion representing accrued interest not bearing additional interest. If there is an event of default under the agreement, the entire indebtedness would bear interest at Chemical's prime rate. Chemical was granted a security interest in all of the shares of Rapid Common Stock owned by Holding, in the shares of senior voting preferred stock of Holding, and in certain other collateral. In the absence of a default of Mr. Riklis' obligations to Chemical, Holding has the right to vote the shares of Rapid Common Stock and World Wide has the right to vote the shares of senior voting preferred stock of Holding. In connection with the restructuring of Mr. Riklis' indebtedness, Chemical granted an option to AFC (see "Introductory Note") which provides that if an event of default occurs under the agreement, Chemical would notify AFC which would then have the right to acquire at the face value thereof Chemical's claims against Mr. Riklis together with the collateral securing such claims. In the event of a default in the repayment of Mr. Riklis' obligations to Chemical, any resulting foreclosure upon the shares of Rapid Common Stock could result in a change of control of Rapid.

Chemical was the Agent Bank under McCrory's Credit Agreement, dated as of June 19, 1981, which was terminated in March 1984.

Item 13. Certain Relationships and Related Transactions.

1. On January 1, 1984, Rapid and its subsidiary, American Recreation Group, Inc. ("ARG") sold to World Wide all of the assets of ARG [which included the assets of Melville Knitwear Co. (women's sportwear) and Plastic Toy and Novelty Company (plastic toys)]. In consideration for the sale of the assets, World Wide paid $14,000,000 and assumed all of ARG's liabilities. In

connection with the foregoing transaction, World Wide borrowed $13,000,000 from a bank (currently $9,000,000) secured by certain assets, and guaranteed by Rapid. One of the liabilities assumed was an intercompany indebtedness of approximately $5,000,000 due to Rapid, which bears interest at 110% of prime, is payable on demand, and is secured by a junior lien on inventory. Upon consummation of the transaction, the assets and liablilities of ARG relating to its bicycle divisions (including approximately $2,500,000 of the aforesaid intercompany indebtedness to Rapid) were transferred to a limited partnership, the general partner of which is World Wide and one of the limited partners of which is a corporation wholly-owned by Daniel J. Manella. AFC was also a limited partner until April 1985 when its partnership interest was transferred to World Wide.

During the year ended January 31, 1985, purchases by subsidiaries of Rapid of merchandise from World Wide and its affiliates, all of which were made in the ordinary course of business, aggregated approximately $1,100,000 (which constituted approximately 1% of their combined net revenues). In the opinion of management, the foregoing purchases were made at prices comparable to those that would have been arrived at as a result of arms-length negotations.

2. As an inducement for Mr. Riklis to enter into an employment agreement (see Item 11 - "Executive Compensation - Employment Agreements - Meshulam Riklis"), Rapid loaned Mr. Riklis $12,500,000 on February 1, 1983 (the "First Loan"), and agreed to loan Mr. Riklis $12,500,000 on or before December 31, 1985 (the "Second Loan"). The First Loan and the Second Loan are payable as set forth below. If certain financial criteria are not met, Rapid, in its sole discretion, may delay making the Second Loan until December 31, 1987.

During the year ended January 31, 1984, the obligations of Mr. Riklis under the First Loan were assumed by World Wide and Rapid agreed to make the Second Loan directly to World Wide. In accordance with an agreement dated as of June 1, 1984 (the "World Wide Agreement"), among Rapid, World Wide, and Meshulam Riklis, Rapid purchased from World Wide an aggregate of $66,450,000 principal amount of Rapid's Zero Debentures with maturities from 1993 to 2007. As consideration therefor, Rapid issued to World Wide its non-interest bearing promissory note due in 1992 (the "1992 Note") in the amount of $7,000,000 which was approximately the carrying value of such debentures. If certain payment obligations of World Wide to Rapid are satisfied, the 1992 Note can be exchanged at the option of World Wide for Rapid's promissory note due in 2005 (the "2005 Note") bearing interest at 40% per annum. In 2005, if World Wide satisfies certain payment obligations to Rapid, it has the option to exchange the 2005 Note for another note of Rapid due in 2034 (the "2034 Note") bearing interest until 2007 at 40% per annum and 70% per annum thereafter. The 2034 Note can be prepaid by Rapid at any time after issuance together with a prepayment penalty of $21,300,000. Rapid is amortizing the prepayment penalty over approximately 10 years. The 1992 Note has been included in Rapid's financial statements as an offset against the amount due from stockholders and affiliates. In addition, the World Wide Agreement provides that the aggregate indebtedness of World Wide to Rapid in the principal amount of $15,830,000 ($12,500,000 First Loan and promissory note of $3,330,000 - see paragraph 13) bears interest of the rate of 10% per annum payable annually and the $12,500,000 Second Loan will bear interest at the

rate of 10% per annum payable annually. The First Loan, the promissory note and the Second Loan will be due on March 1, 2007. The payment of interest on the First Loan and the promissory note for the year ended January 31, 1985, has been deferred. If World Wide is not in default in the payment of interest it shall have the right to pay the principal over a 10 year period by making semi-annual payments commencing March 1, 2007.

3. During January 1984, Rapid made non-interest bearing demand loans to World Wide in the amount of $15,000,000 and to AFC in the amount of $10,000,000. Commencing January 1, 1986, Rapid will not pay any dividends while the World Wide loan is outstanding unless such dividends are applied in reduction of such loan. During January 1985, AFC's $10,000,000 note was converted into an obligation due in 1987, bearing interest at 10%. For the maximum amounts of indebtedness owed to Rapid by Mr. Riklis and his wholly-owned entities during the years ended January 31, 1985 and 1984, reference is made to Note 11 to Financial Statements.

4. During February 1984, Rapid entered into agreements with World Wide and AFC to acquire from them $18,000,000 and $12,000,000, respectively, principal amount of Rapid's 7% Subordinated Debentures, due 1994. Pursuant to such agreements, Rapid issued its negotiable promissory notes, due March 1, 1986, in an aggregate principal amount of $30,000,000, bearing interest at 110% of prime. World Wide and AFC have agreed to deliver such debentures to Rapid by March 1, 1986, together with interest thereon from March 1, 1984. The market price of such debentures, as of the time of the transaction, was approximately 60% of principal amount. During January 1985, AFC and Rapid modified the foregoing arrangement and AFC agreed to deliver to Rapid $12,000,000 principal amount of 7% Debentures on May 15, 1994 and to pay interest to Rapid at the rate of 7% per annum through January 31, 1985 and thereafter at the rate of 10% per annum. AFC collateralized its obligation to Rapid by pledging $12,000,000 principal amount of 7% Debentures.

5. Mr. Riklis beneficially owns approximately 73% of the issued and outstanding shares of capital stock of AITS and is Co-Chairman of the Board of Directors and President of AITS. During August 1983, Hotel Riviera, Inc. ("Riviera"), a wholly-owned subsidiary of AITS and its only operating asset, filed a petition under Chapter 11 of the United States Bankruptcy Code. Riviera operates the Hotel Riviera in Las Vegas, Nevada. At the time of such filing, Mr. Riklis was Chairman of the Board of Directors and Chief Executive Officer of Riviera and is currently Chairman of the Board. During May 1984, AITS filed a petition seeking reorganization under Chapter 11 of the United States Bankruptcy Code. On February 13, 1985, the United States Bankruptcy Court, District of Nevada, entered an order confirming an amended Joint Plan of Reorganization, as modified (the "Plan"), of AITS and certain of its subsidiaries, including Riviera. Pursuant to the terms of the Plan, among other things, Riviera and AITS will be consolidated into a new entity, Riviera, Inc. ("New Riviera"), the shares of existing capital stock of AITS will be cancelled and no distribution in respect of such shares will be made under the Plan or otherwise, and all of the common stock of New Riviera will be issued to World Wide in exchange for debt.

During September 1982, Rapid acquired from a bank for $1,240,000 the obligations of AITS to the bank in the principal amount of $3,121,240, together with the accrued and unpaid interest thereon. In addition, during February 1983, Rapid acquired from a bank for $3,550,000 the obligations of AITS and Riviera to the bank in the aggregate principal amount of $8,750,000, together with the accrued and unpaid interest thereon (the AITS and Riviera indebtedness are hereinafter collectively referred to as the "Indebtedness"). In connection with the acquisition of the Indebtedness, Rapid also acquired the rights of the banks under a pledge agreement, dated December 3, 1974, pursuant to which all of the capital stock of Riviera is pledged to secure substantially all of the Indebtedness. In addition, during the three fiscal years ended January 31, 1985, Rapid advanced to AITS an aggregate of $286,000, due on demand without interest.

In the Bankruptcy proceeding Rapid's claim is limited to the $4,790,000 it paid for the Indebtedness, plus interest thereon, and the amount of AITS' borrowings from Rapid. Pursuant to the Plan, Rapid will receive shares of New Riviera's preferred stock for its claim.

6. During the year ended January 31, 1983, Holding borrowed from Rapid an aggregate of $5,000,000. Such indebtedness is evidenced by promissory notes payable in 1987, together with accrued interest computed at the rate of 15% per year compounded semi-annually. Rapid has been advised that all of the proceeds of the loans were in turn advanced to Riviera. Pursuant to the Plan (see paragraph 5), Holding will receive shares of New Riviera's preferred stock for its claim. The principal asset of Holding is its ownership of Rapid Common and Preferred Stock.

7. During December 1981, Mr. Isidore A. Becker (former director of Rapid) borrowed $2,000,000 from Rapid. The loan was unsecured and was evidenced by Mr. Becker's non-interest bearing demand note. Rapid has been advised that the proceeds of the loan were in turn advanced to Riviera. Mr. Becker and members of his family owned approximately 24% of the capital stock of AITS (see paragraphs 5 and 9).

8. During February 1983, Schenley acquired from a bank for $2,175,000 the obligations of Mr. Becker in the amount of $2,175,000, together with the right to certain collateral consisting of obligations of AITS to Mr. Becker (see paragraph 9).

9. During March and May 1984, World Wide acquired from two financial institutions approximately $11,000,000 of the Riviera's indebtedness to such institutions, and acquired from Mr. Becker and members of his family all of the shares of AITS common stock owned by them. World Wide delivered to the financial institutions its interest bearing promissory notes in the aggregate principal amount of the indebtedness acquired, payable over a five year period and returned to Mr. Becker his guarantees of the aforesaid indebtedness together with certain collateral which had been deposited by him in connection therewith. Mr. Riklis has guaranteed one of the World Wide notes (approximately $7,300,000) and Rapid has guaranteed Mr. Riklis' obligation thereunder. Holding has guaranteed the obligation under the other World Wide note (approximately $3,700,000). During April 1984, Rapid and Schenley entered into agreements with Mr. Becker pursuant to which Mr. Becker's

aggregate indebtedness of $4,175,000, (see paragraphs 7 and 8) to Rapid and Schenley were deemed repaid by his assignment to Rapid and Schenley of certain obligations of AITS and Riviera to Mr. Becker in approximately the same aggregate principal amount. Rapid paid $300,000 to Mr. Becker for the assignment to Rapid of his claim against Riviera for an outstanding $300,000 loan. During December 1984, the $2,175,000 obligation due from AITS, acquired from Mr. Becker by Schenley was sold by Rapid to World Wide for a five year non-interest bearing note in the same amount. Pursuant to the Plan (see paragraph 5), both Rapid and World Wide will receive shares of New Riviera's capital stock for the foregoing debts.

10. In connection with the termination on January 31, 1978 of a shopping center lease by McCrory in Springfield, Virginia, the lessor, a partnership in which Mr. Riklis is the principal partner, became indebted to McCrory for $309,000. As of March 15, 1983, such obligation was assumed by World Wide. As of January 31, 1985, the indebtedness to McCrory was $156,000, payable in 20 remaining quarterly payments, bearing interest at the rate of 6% per annum.

11. As of January 31, 1983, Rapid purchased approximately 149 acres of undeveloped land (the "Property") in the Towns of Manchester and South Windsor, Connecticut from Mr. Riklis for a purchase price of $2,111,500 in excess of the existing mortgages on the Property of approximately $500,000. Rapid delivered to Mr. Riklis its promissory note in the principal amount of $2,111,500, payable on January 31, 1987, bearing interest at the rate of 6% per annum payable quarterly, and secured by a purchase money mortgage on the Property which has been assigned by Mr. Riklis to KGA. Rapid has the right to require Mr. Riklis to repurchase the Property on January 30, 1987, for a purchase price of $2,111,500, plus all principal and interest payments on the underlying mortgages, and all real estate taxes paid by Rapid prior to such date. In connection with the foregoing transaction, Rapid has delivered a guarantee to a bank guaranteeing the difference between the interest due under a $2,111,500 note from Mr. Riklis to the bank (at 1/2% above prime) and 6% per annum. Any amounts advanced by Rapid under such guarantee would become demand obligations of Mr. Riklis, bearing interest at the rate per year of 110% of prime, payable annually.

12. In March 1984, View Top Corporation, a wholly-owned subsidiary of Rapid, acquired an aircraft for approximately $2,100,000. View Top leased the aircraft to a corporation wholly-owned by World Wide. The aircraft was used principally in connection with tours to the Hotel Riviera. The corporation agreed to pay rentals to View Top of approximately $400,000 per year and pay all expenses of operating the aircraft. During 1984, the corporation did not pay any rentals to View Top and ceased operations in January 1985. The amount of unpaid rent is an obligation of World Wide, the payment of which has been deferred.

13. On February 3, 1982, Rapid sold its entire common stock interest in ILC (555,054 shares which represented approximately 74% of the outstanding shares) to Mr. Riklis (333,032 shares) and to Carl H. Lindner, Chairman of the Board of AFC (222,022 shares). In payment for the shares of ILC common stock, Messrs. Riklis and Lindner delivered to Rapid their unsecured promissory notes in the aggregate principal amounts of $3,330,320 and $2,220,220, respectively, each payable on January 31, 1997, and bearing interest at the rate of 10% per

year payable semi-annually. Mr. Riklis' obligation was assumed by KGA as of March 15, 1983. Under certain circumstances the maturity dates of the notes can be extended to August 1, 2006. Simultaneously Mr. Riklis sold, for $10 per share in cash, 330,000 shares of ILC common stock to Leonard C. Lane (Chairman of the Board of ILC) and 3,032 shares to ILC and Mr. Lindner sold, for $10 per share in cash, 101,750 shares of ILC common stock to Mr. Lane and 2,022 shares to ILC. During March 1982, as a result of a merger of ILC, pursuant to which the other stockholders of ILC received $10 per share in cash in exchange for their shares of ILC, 78-1/2% of the outstanding shares of ILC common stock became owned by Mr. Lane and the balance, 21-1/2% of ILC common stock became owned by Mr. Lindner. In addition, Mr. Riklis has the right through February 1987 to buy from Mr. Lane 118,250 shares of ILC common stock (currently representing 21-1/2% of the outstanding shares). In connection with the merger, Rapid's intercompany receivable from ILC of approximately $7,450,000 was exchanged for approximately 74,500 shares of a newly created ILC redeemable preferred stock. See Note 5 to Financial Statements. During the three years ended January 31, 1985, Rapid and certain of its subsidiaries leased, in the ordinary course of business, transportation and manufacturing equipment from ILC and paid rentals to ILC of approximately $1,500,000 during the year ended January 31, 1985. Rapid and its subsidiaries ceased entering into lease transactions with ILC after January 1, 1984. In the opinion of management, the foregoing leases were made upon terms comparable to those that would have been arrived at as a result of arms-length negotiations. During January 1985, Mr. Lindner sold his shares in ILC to Mr. Riklis for the assumption of his $2,220,220 note due to Rapid, together with unpaid interest thereon which has been deferred. Rapid has been advised that during March 1984, ILC loaned Mr. Riklis $1,000,000 evidenced by his unsecured, non-interest bearing demand note.

14. During September 1983, a partnership, whose principal partner is Mr. Riklis, borrowed $4,000,000 (currently $3,000,000) from a bank secured by certain of the partnership's assets and used the proceeds to repay to Rapid certain indebtedness. Rapid guaranteed the obligation of such partnership to the bank. In addition, as of January 31, 1985, certain unsecured obligations of Mr. Riklis to a bank of approximately $2,700,000 were guaranteed by Rapid.

15. As of June 1, 1984, Rapid sold the assets of its wholly-owned subsidiary, RAAM Information Services Corporation, to World Wide for an amount equal to book value. In connection with such sale, World Wide agreed to advise, furnish and monitor the computer and communication needs of certain of Rapid's subsidiaries for a fee equal to 110% of the estimated costs of the respective entities for such needs and to remit to the entity for which such services were rendered one-half of any profit resulting therefrom. Rapid furnishes office space to a limited number of World Wide's employees at no cost. During December 1984, the arrangement was modified to provide that Rapid and its subsidiaries will, during each of the next five years, pay to World Wide for such services an amount equal to the annualized amount paid for 1984, and that World Wide will not be required to remit any profits which may result nor seek any additional sums if losses result. From the period June 1, 1984 to January 31, 1985, Rapid and its subsidiaries paid World Wide approximately $11,500,000 in fees for such services.

16. On February 3, 1982, pursuant to the terms of a loan agreement, Leonard C. Lane borrowed $6,250,000 from Rapid. The loan is due on August 1, 2006 and bears interest at the rate of 10% per year payable semi-annually. Mr. Lane has secured his obligations under the loan by pledging with Rapid $6,250,000 principal amount of 10% Debentures. If there is a default in the payment of interest or principal by Mr. Lane, he has the right to transfer such debentures to Rapid and thereafter Rapid will have no recourse against him for the interest or principal on the note. At any time after December 31, 1994, Rapid may in its sole and absolute discretion accept such debentures in whole or in part at their principal amount, including any accrued interest thereon, for sinking fund purposes in satisfaction of the principal amount of the loan.

17. During August 1983, Rapid sold the stock of its wholly-owned subsidiary Theatre Venture, Inc. (50% partner in the ownership of the Palace Theatre located in New York City) to Mr. Lane for $1,375,000 (which approximated carrying value), of which $250,000 was paid on closing and the balance was paid in February 1984. In the opinion of management, the terms of such transaction were not arrived at as a result of arms-length negotiations.

18. During February 1983, Daniel J. Manella borrowed $200,000 from Rapid. The loan is unsecured and is evidenced by Mr. Manella's non-interest bearing promissory note due on January 31, 1989. In addition, during October 1982, Mr. Manella borrowed $1,000,000 from Rapid. The loan is unsecured and is evidenced by Mr. Manella's non-interest bearing note due on January 31, 1989.

19. During September 1983, Harold S. Divine borrowed $1,000,000 from Rapid. The loan is unsecured and evidenced by Mr. Divine's non-interest bearing note due August 1, 2006. Rapid has been advised that the proceeds of the loan were used in partial payment for shares of exchangeable preferred stock of Holding. See Item 12 - "Security Ownership of Certain Beneficial Owners and Management."

20. During December 1981, pursuant to the terms of a loan agreement, Arie Genger borrowed $1,200,000 from McCrory. The loan is evidenced by Mr. Genger's promissory note due on May 15, 1994, bearing interest at the rate of 7% per year payable semi-annually.

21. During October 1981, pursuant to the terms of a loan agreement, Bernard J. Blaney borrowed $600,000 from McCrory. The loan is evidenced by Mr. Blaney's promissory note, due on August 1, 2006, bearing interest at the rate of 10% per year payable semi-annually. Mr. Blaney has secured the note by pledging with McCrory $600,000 principal amount of 10% Debentures. If there is a default in the payment of interest or principal by Mr. Blaney, he has the right to transfer such debentures to McCrory and thereafter McCrory will have no recourse against him for the interest or principal on the note.

22. Effective April 1, 1981, Whimsy, Incorporated ("Whimsy"), a subsidiary of McCrory, assigned leases on five of its retail stores, which had previously been closed, to Specialty Store Group, Inc. ("Specialty"), a corporation whose principal stockholder and Chief Executive Officer is Ira D. Riklis. McCrory has been advised that by November 1982 Specialty closed all of the Whimsy locations. In connection with such transaction, Rapid loaned Specialty

$500,000 which was payable in five annual instalments commencing March 31, 1982, bearing interest at the prime rate payable quarterly. During April 1985, Rapid and Specialty modified the loan transaction pursuant to which Specialty agreed to pay the remaining balance of $350,000 in 49 monthly installments, commencing on May 1, 1985, with interest at prime. Specialty collateralized its obligation to Rapid with a promissory note from a third party in approximately the same principal amount.

23. As of January 31, 1983, a wholly-owned subsidiary of McCrory sold its lease and leasehold estate located on Central Avenue, Yonkers, New York, which consists of a shopping center, to a New York Limited Partnership (the "New York Partnership"). The limited partners, initially Mona R. Ackerman, Marcia Riklis, Ira D. Riklis, and AFC, had a 90% interest in the profits and losses of the New York Partnership. During January 1985, AFC transferred its limited partnership interest to the other limited partners (10-1/3% each) and to the general partner (5%). The sales price for the property was $6,100,000 which was evidenced by a promissory note payable in quarterly instalments over a 15 year period, with interest at 10% per annum, and collateralized by an assignment of the income, profits, and distributions of the New York Partnership.

As of January 31, 1983, a wholly-owned subsidiary of Rapid sold its lease and leasehold estate located in Richmond, Virginia, which consisted of a manufacturing plant and warehouse, to a Virginia Limited Partnership (the "Virginia Partnership"). The limited partners, initially Mona R. Ackerman, Marcia Riklis, Ira D. Riklis, and AFC, had a 90% interest in the profits and losses of the Virginia Partnership. During January 1985, AFC transferred its limited partnership interest to the other limited partners (10-1/3% each) and to the general partner (5%). The sales price for the property was $2,600,000, of which $1,180,000 was evidenced by a promissory note payable in quarterly instalments over a 15 year period commencing in 1989, with interest at 10% per annum, payable quarterly and collateralized by an assignment of the income, profits, and distributions of the Virginia Partnership, and the balance by the assumption of the payments due under a mortgage on the property, in the aggregate principal amount of $1,420,000, which is due in annual instalments from December 1983 through December 1987. The mortgage bears interest at 6-1/4% per annum, payable semi-annually. Following consummation of the foregoing transaction, Rapid's subsidiary continued to be liable under the mortgage. In the opinion of management, the terms of the transactions referred to in paragraph 23 were comparable to those that would have been arrived at as a result of arms-length negotiations.

24. A corporation of which Abraham G. Levin is the Chief Executive Officer entered into a consulting contract with Rapid effective February 1, 1981 through January 31, 1985 for services relating to non-legal matters. The contract provided for an annual consulting fee of $300,000, all of which fees have been paid.

25. During the year ended January 31, 1985, Rapid and its subsidiaries paid to Rubin Baum Levin Constant & Friedman, general counsel to Rapid, of which Abraham G. Levin is the senior partner, approximately $4,400,000 for services rendered.

26. Marcia Riklis' husband, through his wholly-owned entity, has a 42-1/2% interest in a partnership which during July 1983 acquired from Rapid a purchase option for the former S. Klein Department Stores Inc. property on 14th Street in New York City. The exercise price for the option is approximately $22,700,000 (the approximate carrying value of such property). In connection with the foregoing, such partnership delivered to Rapid a non-refundable deposit of $1,000,000 which will be applied against the purchase price if the option is exercised.

27. As an inducement for Mr. Jarvie to enter into an employment agreement, Schenley loaned to him $1,000,000 evidenced by his unsecured non-interest bearing demand promissory note. See Item 11 - "Executive Compensation - Employment Agreements."

28. During January 1975, August 1983, and February 1984, Howard S. Feldman borrowed an aggregate of $550,000 from Schenley. The loans are unsecured and are evidenced by Mr. Feldman's non-interest bearing demand promissory notes.

Unless otherwise indicated, in the opinion of management, the transactions described above with members of the Riklis family or entities controlled by them were not upon terms arrived at as a result of arms-length negotiations.

PART IV.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) See Index to Financial Statements and Schedules on Page F-1.

(b) No reports on Form 8-K were filed during the last quarter of the fiscal year ended January 31, 1985.

(c) See Index to Exhibits on Page E-1.

(d) None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID-AMERICAN CORPORATION
(Registrant)

By /S/ B.J. BLANEY
Bernard J. Blaney
Vice President and Treasurer

Dated: April 30, 1985

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

Principal Executive Officer:
Meshulam Riklis
Chairman of the Board

Principal Financial and Accounting Officer:
Bernard J. Blaney
Vice President and Treasurer

Directors:
Mona R. Ackerman
Harold S. Divine
Arie Genger
Charles L. Jarvie
Seymour Kleinman
Leonard C. Lane
Abraham G. Levin
Daniel J. Manella
Dan Palmon
Stephen L. Pistner
Ira D. Riklis
Marcia Riklis
Meshulam Riklis
Leo D. Stone
Helen H. Updike

By /S/ STUART H. AARONS
Stuart H. Aarons
Attorney-in-fact

Dated: April 30, 1985

Original powers of attorney authorizing Bernard J. Blaney and Stuart H. Aarons, and each of them, to sign this report and any amendments hereto on behalf of the directors and officers of the Registrant are being filed with the Securities and Exchange Commission with this report.

RAPID-AMERICAN CORPORATION

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Schedules

Schedules Omitted

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required, or because the information required therein is set forth in the financial statements or the notes thereto.

Deloitte Haskins+Sells

One World Trade Center
New York, New York 10048
(212) 669-5000
International Telex 66272

To the Board of Directors of
Rapid-American Corporation:

We have examined the consolidated financial statements and supplemental schedules of Rapid-American Corporation and its consolidated subsidiaries, listed in the foregoing index. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Lerner Stores Corporation (a consolidated subsidiary held for sale as of January 31, 1985), which statements reflect net assets of $158,855,000 and assets of $266,506,000 at January 31, 1985 and 1984, respectively, and income from operations sold of $19,226,000, $34,923,000 and $37,529,000 for the years ended January 31, 1985, 1984 and 1983, respectively. Also, we did not examine the consolidated financial statements of HRT Industries, Inc. (a consolidated subsidiary in the accompanying consolidated balance sheet and an investment which is accounted for by use of the equity method in the accompanying statement of consolidated operations - see Note 3 to the financial statements), which statements reflect assets of $155,315,000 at January 31, 1985 and equity loss of $3,240,000 for the year then ended. Such consolidated financial statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

As discussed in Note 14 to the financial statements, substantial damages are being sought against Rapid-American Corporation and certain of its subsidiaries in various actions and claims. The ultimate outcome of such actions and claims cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion, subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, and based upon our examinations and the reports of other auditors, the accompanying consolidated financial statements present fairly the financial position of the companies at January 31, 1985 and 1984 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

DELOITTE HASKINS & SELLS
April 24, 1985

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

March 13, 1985

Board of Directors
Lerner Stores Corporation
New York, New York

We have examined the consolidated balance sheets of Lerner Stores Corporation and subsidiaries as of January 31, 1985 and 1984 and the related statements of income, stockholder's equity and changes in financial position for each of the three years in the period ended January 31, 1985 (none of which is presented separately herein). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Lerner Stores Corporation and subsidiaries as of January 31, 1985 and 1984 and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

TOUCHE ROSS & CO.

Certified Public Accountants

GATEWAY ONE – NEWARK, NEW JERSEY 07102 – (201) 622-7100

Coopers
&Lybrand

The Stockholders and the
Board of Directors of
HRT Industries, Inc.

We have examined the consolidated balance sheet of HRT Industries, Inc. and subsidiaries as of February 1, 1985, and the related statements of operations, stockholders' equity, and changes in financial position for the year then ended and the financial statement Schedule VIII, none of which are presented separately in this Form 10-K. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of HRT Industries, Inc. and subsidiaries for the year ended February 3, 1984, were examined by other auditors, whose report dated May 8, 1984, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of HRT Industries, Inc. and subsidiaries as of February 1, 1985, and the consolidated results of their operations and changes in their financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. In addition, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly the information required to be included therein.

Coopers & Lybrand

Los Angeles, California
April 24, 1985

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS

	Year Ended January 31,		
	1985	1984*	1983*
		(In Thousands)	
REVENUES:			
Net sales	$1,751,088	$1,442,492	$1,597,246
Other - net	64,811	49,320	43,709
	1,815,899	1,491,812	1,640,955
COSTS AND EXPENSES:			
Cost of goods sold	1,138,265	976,336	1,119,152
Selling, general and administrative expenses	477,048	357,455	373,935
Interest and debt expense	180,473	116,991	138,869
Depreciation and amortization	29,151	21,742	21,072
Minority interest	3,642	1,164	-
	1,828,579	1,473,688	1,653,028
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES AND EXTRAORDINARY ITEMS	(12,680)	18,124	(12,073)
PROVISION (BENEFIT) FOR INCOME TAXES	(4,761)	5,268	(6,155)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRA-ORDINARY ITEMS	(7,919)	12,856	(5,918)
INCOME FROM OPERATIONS SOLD - NET OF TAX	17,803	40,628	38,583
INCOME BEFORE EXTRAORDINARY ITEMS	9,884	53,484	32,665
EXTRAORDINARY CHARGE - LOSS ON DEBENTURE PURCHASES - NET OF TAX	(18,240)	-	-
EXTRAORDINARY CREDIT - GAIN ON DEBENTURE EXCHANGES - NET OF TAX	-	2,960	13,834
NET INCOME (LOSS)	(8,356)	56,444	46,499
CONSOLIDATED PREFERRED DIVIDEND REQUIREMENTS	801	814	926
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ (9,157)	$ 55,630	$ 45,573

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* Restated for operations sold.

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 1985	January 31, 1984
	(In Thousands)	
CURRENT ASSETS:		
Cash	$ 26,131	$ 37,784
Temporary investments, at cost which approximates market	191,943	66,120
Trade receivables, less allowances ($7,278,000 and $3,126,000)	141,509	97,890
Inventories	434,514	512,060
Other receivables, prepaid expenses, etc.	56,602	49,112
Assets held for sale - net	208,133	-
Total current assets	1,058,832	762,966
INVESTMENTS AND ADVANCES:		
Marketable securities, at cost which approximates market	270,381	40,238
Otasco Credit Corporation	-	21,190
Other	33,262	30,778
Total investments and advances	303,643	92,206
PROPERTY, PLANT AND EQUIPMENT - AT COST	499,651	552,566
Less accumulated depreciation and amortization	205,339	230,958
	294,312	321,608
Capital leases, less accumulated amortization	49,806	31,614
Property, plant and equipment - net	344,118	353,222
OTHER ASSETS:		
Excess of cost of investments over related equities, less accumulated amortization	257,954	234,159
Franchises, less accumulated amortization	45,091	45,490
Trademarks	2,638	2,780
Long-term receivables - Otasco Holding Corp.	24,549	-
Deferred charges, mortgages and sundry	85,943	61,750
Due from stockholders and affiliates ($56,521,000 and $52,375,000) - see contra.	-	-
Total other assets	416,175	344,179
TOTAL	$2,122,768	$1,552,573

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY	January 31, 1985	January 31, 1984
	(In Thousands)	
CURRENT LIABILITIES:		
Accrued expenses and sundry	$ 184,998	$ 162,120
Accounts payable	134,693	169,227
Current maturities of long-term debt	76,721	20,175
Short-term debt	24,227	46,326
Accrued Federal and foreign income taxes	15,752	57,362
Capital lease obligations	7,792	5,969
Total current liabilities	444,183	461,179
LONG-TERM DEBT, LESS CURRENT MATURITIES AND UNAMORTIZED DISCOUNT AND EXPENSE	1,318,013	720,823
OTHER NONCURRENT LIABILITIES:		
Deferred income taxes	120,927	129,684
Capital lease obligations	66,576	45,284
Reserves for store closings	7,169	6,354
Sundry	31,165	47,001
Total other noncurrent liabilities	225,837	228,323
MINORITY INTEREST IN SUBSIDIARIES	58,289	45,485
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value, authorized and issued 12,100 shares (liquidation preference $121,000,000)	1	-
Common stock, $.01 par value, authorized and issued 2,435,607 shares	24	24
Additional paid-in capital	167,670	57,774
Retained earnings	79,635	95,109
Treasury stock, at cost, 974,243 common shares	(110,000)	-
Foreign currency translation adjustment	(4,363)	(3,769)
Due from stockholders and affiliates - see contra	(56,521)	(52,375)
Total stockholders' equity	76,446	96,763
TOTAL	$2,122,768	$1,552,573

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF STOCKHOLDERS' EQUITY

(In Thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Foreign Currency Translation Adjustment	Due from Stockholders and Affiliates
Balance, February 1, 1982	$ 1	$24	$ 69,903	$ 2,897			$ (5,863)
Net income				46,499			
Cash dividends declared on:							
Preferred stock ($.92 per share)				(108)			
Common stock ($1.60 per share) .				(3,897)			
Redemption of preferred stock ...	(1)		(11,786)				
Reduction of carrying value of net assets held for sale to stockholders and affiliates				(3,284)			
Exercise of debenture purchase warrants			(211)				
Cash dividends paid by subsidiaries				(811)			
Increase in amount due from stockholders and affiliates							(33,014)
Balance, January 31, 1983	-	24	57,906	41,296			(38,877)
Cumulative adjustment as of February 1, 1983 resulting from change in translation method						$(3,167)	
Net income				56,444			
Cash dividends declared on common stock ($.75 per share) ..				(1,827)			
Exercise of debenture purchase warrants			(131)				
Cash dividends paid by subsidiaries				(814)			
Increase in amount due from stockholders and affiliates							(13,498)
Foreign currency translation adjustment						(602)	
Other			(1)	10			
Balance, January 31, 1984	-	24	57,774	95,109		(3,769)	(52,375)
Net loss				(8,356)			
Cash dividends declared on common stock ($2.60 per share) .				(6,324)			
Exercise of debenture purchase warrants			(103)				
Cash dividends paid by subsidiaries				(801)			
Issuance of 12,100 shares of preferred stock in exchange for 974,243 shares of common stock .	1		109,999		$(110,000)		
Increase in amount due from stockholders and affiliates							(4,146)
Foreign currency translation adjustment						(594)	
Other				7			
Balance, January 31, 1985	$ 1	$24	$167,670	$79,635	$(110,000)	$(4,363)	$(56,521)

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31, 1985	1984	1983
		(In Thousands)	
FUNDS PROVIDED:			
Continuing Operations:			
Income (loss) before extraordinary items	$ (7,919)	$ 12,856	$ (5,918)
Items not currently requiring (providing) funds:			
Depreciation and amortization (including debt discount and intangibles)	58,920	31,504	32,573
Non-taxable gain on public sale by McGregor Corporation of its common stock	-	(7,912)	-
Minority interest	3,642	1,164	-
Equity in loss of HRT	3,240	-	-
Deferred Federal and foreign income taxes	1,834	8,831	4,759
Gain on sales of marketable securities	(2,057)	-	-
Gain on sales of property and equipment - net	(5,801)	(2,349)	-
Other - net	4,355	5,633	3,512
Funds provided by continuing operations	56,214	49,727	34,926
Operations sold - net	41,522	66,173	59,993
Extraordinary items:			
Loss on debenture purchases, 1984; gain on debenture exchanges, 1983 and 1982	(18,240)	2,960	13,834
Deferred Federal income taxes	(3,245)	2,521	11,784
Decrease in long-term debt	(80,349)	(5,481)	(25,618)
Increase in long-term debt	734,860	9,273	16,849
Assets held for sale - net - noncurrent	144,945	-	-
Issuance of preferred stock	110,000	-	-
Proceeds from sales of marketable securities and other investments	39,545	6,877	67
Net assets sold - noncurrent	28,681	-	-
Proceeds from disposals of property, plant and equipment	29,179	13,136	17,072
Minority interest in HRT	10,914	-	-
Decrease in deferred charges, mortgages and sundry	7,977	11,905	4,677
Increase in capital lease obligations - net	7,474	-	-
Net proceeds from public sale by McGregor Corporation of its common stock	-	37,048	-
Working capital of companies to be sold	-	-	6,308
Other - net	5,279	7,543	2,686
	1,114,756	201,682	142,578
FUNDS APPLIED:			
Purchases of marketable securities	266,929	41,481	500
Additions to property, plant and equipment	137,852	57,552	64,892
Decrease in long-term debt	110,263	68,374	99,153
Exchange of common stock	110,000	-	-
Excess cost in Faberge	75,049	-	-
Increase in deferred charges, mortgages and sundry	35,561	24,054	23,929
Increase in long-term receivables - Otasco Holding Corp.	24,416	-	-
Increase in other investments	11,401	14,600	4,034
Excess cost in HRT	9,766	-	-
Cash dividends	6,324	1,827	4,005
Investment in Faberge, net of working capital	6,128	-	-
Due from stockholders and affiliates	4,146	13,498	33,014
Purchase of McGregor common stock	1,790	-	-
Cash dividends paid by subsidiaries	801	814	811
Net assets of HRT - noncurrent	780	-	-
Foreign currency translation adjustment	594	3,769	-
Decrease in noncurrent reserves for store closings	94	3,349	4,617
Decrease in capital lease obligations	-	6,270	13,736
Redemption of preferred stock	-	-	11,787
Loans to certain directors and officers - net	-	605	3,291
	801,894	236,193	263,769
INCREASE (DECREASE) IN WORKING CAPITAL	$ 312,862	$(34,511)	$(121,191)

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
(Concluded)

	Year Ended January 31, 1985	1984	1983
	(In Thousands)		
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENTS:			
Cash	$ (9,338)	$ (4,111)	$ 22,423
Temporary investments	88,117	(112,342)	37,727
Trade receivables, less allowances	(5,123)	(24,764)	(3,226)
Inventories	(5,617)	61,147	(73,110)
Other receivables, prepaid expenses, etc.	19,330	(6,065)	7,046
Assets held for sale - net	144,944	-	-
Net assets sold	(40,586)	-	-
Working capital of Faberge	82,275	-	-
Working capital of HRT	28,558	-	-
Assets held for sale to stockholders and affiliates	-	(13,500)	13,500
Accrued expenses and sundry	(5,346)	(5,561)	3,638
Accounts payable	26,702	(19,370)	10,670
Current maturities of long-term debt	(49,760)	65,882	(54,722)
Short-term debt	7,795	17,279	(57,755)
Accrued Federal and foreign income taxes	30,060	(15,131)	(6,752)
Capital lease obligations	851	98	1,297
Due to stockholders and affiliates	-	21,927	(21,927)
INCREASE (DECREASE) IN WORKING CAPITAL	$312,862	$ (34,511)	$(121,191)

See Notes to Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include (i) Rapid; (ii) McCrory Corporation and subsidiaries ("McCrory"), including J. J. Newberry Co. and subsidiaries, and HRT Industries, Inc. and subsidiaries ("HRT") from date of acquisition of majority interest; (iii) Schenley Industries, Inc. and subsidiaries ("Schenley"); (iv) McGregor Corporation ("McGregor"), including Faberge, Incorporated ("Faberge") from date of acquisition of majority interest; and (v) certain other subsidiaries whose assets and operations in the aggregate are not significant.

Lerner Stores Corporation and subsidiaries ("Lerner") and Otasco, Inc. and subsidiaries ("Otasco") have been sold and are classified in the statements of consolidated operations as operations sold.

Minority interest in subsidiaries consisted of the following:

	January 31, 1985	January 31, 1984
	(In Thousands)	
Preferred and preference stocks	$15,032	$15,185
Common stock	3,947	23
Additional paid-in capital	48,339	27,465
Retained earnings (deficit)	(8,911)	2,812
Foreign currency translation adjustment ...	(118)	-
Total	$58,289	$45,485

To facilitate comparisons with the current year, certain amounts in prior years have been reclassified.

INVENTORIES

The last-in, first-out ("LIFO") method is principally used to value inventories. The LIFO inventory amount at January 31, 1985, 1984 and 1983 was less than the first-in, first-out ("FIFO") inventory amount by approximately $83,500,000, $100,300,000 and $105,000,000, respectively. As a result of reduced inventories and lower merchandise costs for the years ended January 31, 1985 and 1984, the difference between LIFO and FIFO was reduced by $5,200,000 and $4,700,000, respectively, excluding the $11,600,000 reduction attributable to the sale of Otasco in the year ended January 31, 1985. Accordingly, operations benefited by approximately $2,800,000 and $2,500,000 for the years ended January 31, 1985 and 1984, respectively.

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $98,100,000, $105,100,000 and $169,600,000, respectively, for the years ended January 31, 1985, 1984 and 1983.

PROPERTY, PLANT AND EQUIPMENT

Depreciation is provided at rates designed to extinguish the cost of properties over their estimated service lives. The approximate annual rates of depreciation and amortization, which have been computed generally using the straight-line method, are as follows:

	Rates of Depreciation and Amortization
Buildings, etc.	2 to 14%
Furniture, fixtures and automobiles	6-1/4 to 33-1/3%
Machinery and equipment	4 to 40%
Property and equipment under capital leases	Term of lease
Leasehold improvements	Term of lease or estimated service life of improvement, whichever is less

EXCESS OF COST OF INVESTMENTS OVER RELATED EQUITIES AND FRANCHISES

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $103,845,000 and $112,638,000 at January 31, 1985 and 1984, respectively, has been recognized as being similar in nature to intangibles, which have not declined in value since acquisition. These excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Note 7). Franchises, which consist of Schenley contracts to import whiskies, liquors, and other distilled spirits, have continuing value and are not being amortized, except for the portion acquired subsequent to October 31, 1970.

The excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $154,109,000 (after accumulated amortization of $33,483,000) at January 31, 1985 and $121,521,000 (after accumulated amortization of $44,125,000) at January 31,

1984 and the portion of franchises, amounting to $11,035,000 (after accumulated amortization of $4,910,000) at January 31, 1985 and $11,434,000 (after accumulated amortization of $4,511,000) at January 31, 1984, acquired subsequent to October 31, 1970 are being amortized using the straight-line method over forty years (see Note 7). These excess costs and franchises have not been otherwise written down, as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

At January 31, 1985, the unamortized excess of cost of $49,277,000 attributable to Lerner has been included in assets held for sale.

FOREIGN CURRENCY TRANSLATION

Effective as of February 1, 1983, Rapid changed its method of translating financial statements of investments stated in foreign currencies to conform with Statement No. 52 of the Financial Accounting Standards Board. An equity adjustment of $3,167,000 was recorded as of February 1, 1983 for the cumulative effect of Statement No. 52 on prior years. The effect on results of operations for the year ended January 31, 1983 was not material and such financial statements have not been restated.

2. OPERATIONS SOLD

In October 1984, McCrory sold the capital stock of its wholly-owned subsidiary Otasco to an investor group principally comprised of employees, including members of senior management, of Otasco. The sale was at approximate book value as of January 31, 1984, which was paid in cash and a $21,000,000 note bearing interest at 15-3/4% per annum, of which $6,000,000 is due no later than October 22, 1989 and $15,000,000 is due in 1994 and secured by a pledge of all of the capital stock of Otasco. In connection with the transaction, Otasco granted a security interest to a lender in substantially all of its assets. In addition, McCrory will receive four payments of $3,000,000 each, on the seventh, eighth, ninth and tenth anniversaries of the closing, for a covenant not to compete. After a provision for income taxes of approximately $4,550,000, the transaction resulted in no gain or loss.

On April 2, 1985, McCrory sold the capital stock of its wholly-owned subsidiary Lerner to The Limited, Inc. for approximately $297,000,000 in cash. The gain from the sale was approximately $74,000,000 net of taxes of approximately $44,000,000. This gain will be reflected in the financial statements for the period ending April 30, 1985.

The results of operations sold shown below represent the operations of Lerner and Otasco for the three years ended January 31, 1985.

	Year Ended January 31,		
	1985	1984	1983
		(In Millions)	
Lerner:			
Revenues	$690.3	$700.1	$686.8
Costs and expenses	658.3	637.9	616.9
Income before income taxes	32.0	62.2	69.9
Income taxes	14.2	28.7	33.8
Net income	17.8	33.5	36.1
Otasco:			
Revenues		300.3	287.6
Costs and expenses		286.7	283.9
Income before income taxes		13.6	3.7
Income taxes		6.5	1.2
Net income		7.1	2.5
Income from operations sold - net of tax	$ 17.8	$ 40.6	$ 38.6

3. HRT INDUSTRIES, INC.

McCrory entered into a joint venture with Schottenstein Stores Corporation ("Schottenstein") in which each party owned a 50% interest for the purpose of investing in HRT. During March 1984, the McCrory and Schottenstein joint venture acquired 55% of the shares of HRT common stock for $18,000,000 and arranged for up to $35,000,000 of credit facilities for HRT. In addition, during March 1984, McCrory acquired an option, exercisable during January 1985, to purchase Schottenstein's interest in the joint venture for $13,225,000 and agreed to guarantee the entire $35,000,000 credit facility for HRT. On January 30, 1985, McCrory acquired Schottenstein's interest by exercising the option and increasing its ownership to 55.2% (including adjustment for fractional shares purchased by HRT). The acquisition of HRT was accounted for using the purchase method. The investment of $22,225,000 exceeded McCrory's equity in HRT by $9,766,000; consisting of the Jody-Tootique excess cost of $4,228,000 and the balance attributable to certain HRT leases. McCrory's equity in the loss of HRT for the period ending January 31, 1985 was $3,240,000.

During April 1985, McCrory acquired the minority interest in HRT for approximately $23,600,000 principal amount of McCrory's 14-1/2% subordinated notes, due May 31, 1988.

4. McGREGOR CORPORATION

Effective October 27, 1983, McGregor, which until then had been a wholly-owned subsidiary of Rapid, publicly sold 2,250,000 shares of its common stock and received approximately $37,000,000 in net proceeds (see Note 16). McGregor paid Rapid $30,000,000 of such net proceeds to satisfy its obligation arising from the redemption during August 1983 of its preferred stock owned by Rapid.

During 1984, in a series of transactions McGregor acquired all of the outstanding capital stock of Faberge for approximately $100,000,000 in cash and $70,000,000 principal amount of McGregor 15-1/2% Subordinated Notes, due 1994.

During January 1985, Rapid purchased 80,000 shares of McGregor common stock in the open market for approximately $1,800,000 which increased its ownership to approximately 55.5%. In March 1985, Rapid acquired the minority interest in McGregor for approximately $50,000,000 in cash.

The following unaudited pro forma consolidated results of operations for the years ended January 31, 1985 and 1984 assumes McGregor and Faberge had been owned 100% as of February 1, 1983 and HRT had been owned 100% as of February 1, 1984. Pro forma consolidated results of operations for the year ended January 31, 1984 does not include HRT because HRT was operating under Chapter 11 of the United States Bankruptcy Code and would not be indicative of continuing operations.

	Pro Forma (Unaudited) Year Ended January 31,	
	1985	1984
	(In Millions)	
Net sales	$2,276.0	$1,697.4
Loss from continuing operations before extraordinary items	(16.2)	(2.9)

5. INVESTMENTS AND ADVANCES

Other investments includes preferred stock of ILC Industries, Inc. ("ILC"). As of January 31, 1982, Rapid sold its common stock investment in ILC to Meshulam Riklis and Carl H. Lindner in exchange for $5,550,540 in notes. Mr. Riklis has purchased Mr. Lindner's stock interest and has assumed the obligation to Rapid. The principal amount of the notes has been included in due from stockholders and affiliates. During March 1982, in exchange for indebtedness due from ILC, Rapid obtained approximately 74,500 shares of ILC preferred stock having a liquidation and redemption value of $100 per share, which provides for quarterly noncumulative dividends at the annual rate of $10.00 per share, restricts dividends on ILC's common stock to an amount equal to the amount paid on the preferred stock, requires redemption of the preferred stock in an amount equal to varying percentages of the earnings before Federal income taxes (as defined) of ILC in excess of certain specified levels, and redemption of all shares of preferred stock under certain other conditions. During the years ended January 31, 1985 and 1984, no shares of ILC preferred stock were redeemed and no dividends were paid. On or before July 31, 1987, ILC is required to redeem the preferred stock which, at ILC's option, can be paid for in cash, publicly trading debentures of Rapid or McCrory due in 1994, United States Treasury obligations maturing in 1994, or ILC's non-interest bearing subordinated promissory note due in 1994 (each in the aggregate principal amount of the redemption price).

6. INVENTORIES

Inventories at the lower of cost or market consisted of the following:

	January 31, 1985	January 31, 1984
	(In Thousands)	
At LIFO cost - whiskey, other spirits and wine:		
In bond	$104,310	$126,428
Tax paid	6,965	7,694
At cost - whiskey, other spirits and wine in bond	8,936	10,344
Retail method	45,254	1,163
Principally LIFO:		
Merchandise at stores and warehouses	176,913	299,618
Raw materials and supplies	1,925	2,812
Principally FIFO and average cost:		
Merchandise at plants and warehouses	47,320	40,750
Work in process	9,823	9,844
Raw materials and supplies	33,068	13,407
Total	$434,514	$512,060

7. INTANGIBLES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1985	January 31, 1984
	(In Thousands)	
Schenley, etc.	$173,614	$174,614
Faberge	75,049	-
McCrory	19,135	19,283
McGregor	18,412	17,862
Jody-Tootique	4,228	-
Lerner	-	65,526
Other	999	999
Total*	291,437	278,284
Less accumulated amortization	33,483	44,125
Net	$257,954	$234,159

* Includes $187,592,000 at January 31, 1985 and $165,646,000 at January 31, 1984, which is being amortized over forty years (see Note 1).

Net income of Schenley was $31,828,000, $33,131,000 and $35,557,000, respectively, for the years ended January 31, 1985, 1984 and 1983. The net assets of Schenley at January 31, 1985 and 1984 were $392,883,000 and $383,738,000, respectively.

8. INDEBTEDNESS AND WARRANTS

Short-Term

Short-term borrowings for the three years ended January 31, 1985 were as follows:

	Year-End		During the Year		
			Maximum	Average *	
	Amount Outstanding	Interest Rate	Amount Outstanding	Amount Outstanding	Interest Rate
	(In Thousands, Except Percentages)				
January 31, 1985:					
Credit lines and commercial paper .	$10,177	11.9%	$ 40,000	$ 19,500	14.2%
Trade acceptances ..	14,050	11.3	48,300 **	42,200 **	12.0
Total	$24,227		$ 88,300	$ 61,700	
January 31, 1984:					
Credit lines and commercial paper .	$ 1,000	11.0%	$ 84,300	$ 20,400	11.9%
Trade acceptances ..	45,326	10.4	49,000	34,500	10.3
Total	$46,326		$133,300	$ 54,900	
January 31, 1983:					
Credit lines and commercial paper .	$44,250	10.7%	$132,400	$ 89,100	14.1%
Trade acceptances ..	19,355	10.1	30,500	20,100	13.8
Total	$63,605		$162,900	$109,200	

* Average borrowings were calculated using the average month-end borrowings outstanding and the average interest rates were calculated by dividing the interest expense for such borrowings by the average month-end borrowings outstanding.

** Includes amounts attributable to operations sold.

At January 31, 1985, Rapid's subsidiaries had available bank lines of credit aggregating $150,000,000, of which approximately $7,000,000 was outstanding.

Long-Term

Details of consolidated long-term debt, including current maturities, at January 31, 1985 and 1984 were as follows:

Description	Amount Outstanding 1985	Amount Outstanding 1984	Effective Interest Rate 1985	Effective Interest Rate 1984
	(In Thousands)			
Notes payable to banks:				
McGregor	$ 97,250	$ 2,250	10.5-12.5%	11.0%
HRT	25,000	-	11.0	-
Notes due to insurance companies:				
Schenley 10% notes due to 1986	20,000	30,000	10.0	10.0
Senior subordinated indebtedness:				
15-3/4% notes due 1991*	125,000	-	16.3	-
Variable rate notes due 1994*	75,000	-	12.6	-
14-1/2% notes due to 1994	200,000	-	15.1	-
Zero coupon debentures due to 2007	439,550	-	14.2-16.7	-
Subordinated indebtedness:				
7-1/2% SF debentures due 1985	17,802	18,121	9.4	9.4
10-1/2% SF debentures due 1985*	5,273	5,317	11.3	11.3
6% SF debentures due 1988	55,695	55,695	8.0	8.0
6-1/2% convertible debentures due 1992*	3,379	3,379	6.9	6.9
7% debentures due 1994 (1969 issue)	51,766	51,766	9.3	9.3
7% debentures due 1994 (1972 issue)	66,277	66,277	9.9	9.9
7-1/2% SF debentures due to 1994*	15,914	15,914	9.5	9.5
6-1/2% convertible debentures due 1994*	707	738	6.5	6.5
15-1/2% SF notes due to 1994**	69,776	-	16.1	-
7-3/4% SF debentures due to 1995*	15,329	15,329	12.1	12.1
7-5/8% SF debentures due to 1997*	12,204	12,204	9.8	9.8
12% SF debentures due to 1999	15,266	15,912	12.9	12.9
10-3/4% SF debentures due to 2003	153,140	153,141	13.7	13.7
10-3/4% SF debentures due to 2004	5,870	5,870	13.7	13.7
11% SF debentures due to 2005	15,509	15,510	14.0	14.0
10% SF debentures due to 2006	138,510	294,018	20.7	20.7
15% SF debentures due to 2008	13,392	13,392	16.8	16.8
9-1/2% SF debentures due to 2008*	39,566	39,566	15.1	15.1
9-5/8% SF debentures due to 2008*	43,491	43,491	15.5	15.5
9-3/4% SF debentures due to 2008*	47,114	47,114	15.7	15.7
11-3/4% SF debentures due to 2009	46,419	46,419	14.5	14.5
Notes and mortgages payable:				
Rapid	36,490	10,041	2.0-14.0	2.0-13.0
View Top Corporation	8,929	14,556	11.8-14.0	11.5-12.5
McCrory and subsidiaries	18,774	30,318	5.5-17.0	2.0-12.4
Schenley	7,980	4,480	12.8-14.0	14.0-20.0
McGregor and subsidiaries	1,212	-	13.5	-
Total principal amount	1,887,584	1,010,818		
Less: Current maturities	(76,721)	(20,175)		
Unamortized discount and expense	(492,850)	(269,820)		
Total	$1,318,013	$ 720,823		

* Indebtedness of McCrory or one of its subsidiaries.
** Indebtedness of McGregor.

The 6-1/2% convertible debentures due 1992 of McCrory are convertible at the rate of $70 principal amount into $45 principal amount of 10% sinking fund subordinated debentures due 2006 of Rapid plus $3.25 in cash. The 6-1/2% convertible debentures due 1994 of J. J. Newberry are convertible at a rate of $150 principal amount for each share of J. J. Newberry common stock.

Aggregate principal amount of long-term debt at January 31, 1985 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1986	$ 76,721	1990	$ 354,795
1987	83,225	1995	817,388
1988	44,516	2000	200,630
1989	108,285	2005	252,257
1990	42,048	2010	262,514
Total ...	$354,795	Total ..	$1,887,584

At January 31, 1985, notes and mortgages payable aggregating approximately $31,300,000 were secured by land, buildings and equipment having an approximate carrying value of $51,300,000.

Rapid

In March 1984, Rapid received proceeds of approximately $333,000,000 from the public sale of $200,000,000 principal amount of 14-1/2% senior subordinated notes, due to 1994 and $506,000,000 principal amount of serial zero coupon senior subordinated debentures, due 1985 through 2007.

The indentures for the 14-1/2% senior subordinated notes and the zero debentures contain restrictions on dividends and advances to stockholders and affiliates. See Item 5 - "Market for the Registrant's Common Equity and Related Stockholder Matters." In addition, under certain circumstances, a portion of the proceeds in excess of $150,000,000 from the sale of assets not in the ordinary course of business by Rapid and its subsidiaries is to be used to retire certain indebtedness, which may include the 14-1/2% notes and zero debentures. During April 1985, sufficient notes were purchased on the open market to satisfy the obligation resulting from the sales of Otasco and Lerner.

McCrory

In July 1984, McCrory received net proceeds of approximately $193,000,000 from the public sale of $125,000,000 principal amount of 15-3/4% Senior Subordinated Notes, due 1991 ("15-3/4% Notes"), and $75,000,000 principal amount of Senior Subordinated Exchangeable Variable Rate Notes ("Variable Rate Notes"). The Variable Rate Notes are due on July 15, 1994 unless such notes are exchanged, at the option of McCrory through July 15, 1988, for Fixed Rate Notes. If the exchange option is exercised, such Fixed

Rate Notes will be due five years from the exchange date and bear interest at 127% of the Five Year Treasury Rate (as defined). Interest on the Variable Rate Notes is payable at a variable rate per annum equal to the greater of (i) 3.5% over the Three Month Treasury Rate (as defined) or (ii) 2.5% over the Three Month Certificate of Deposit Rate (as defined) for each quarterly period prior to the earlier of July 15, 1994 or the Exchange Date.

HRT has a $35,000,000 credit facility consisting of a revolving and term loan, guaranteed by McCrory. The revolving loan of $10,000,000 bears interest at 1/2% in excess of the bank's prime rate and may be converted on February 2, 1987 to a term loan, with principal payable in eight equal quarterly instalments, plus interest at prime plus 3/4%. The term loan of $25,000,000 is payable in fifteen quarterly installments of $1,250,000 commencing May 4, 1985, and a final instalment of $6,250,000 on February 4, 1989. Interest on the term loan is at 1/2% in excess of the bank's prime rate and the agreement provides for a commitment fee of 1/4% of the revolving loan commitment and 1/4% of the outstanding principal balance of the term loan. Additionally, the loan agreement as amended requires compliance with various covenants, including the maintenance of minimum levels of consolidated stockholders' equity, income, working capital and debt to equity ratios, as well as restrictions on capital expenditures, indebtedness, liens, guarantees, leases and dividends.

The indenture for the 15-3/4% Notes and Variable Rate Notes and other loan and guaranty agreements contain material restrictions on McCrory and its subsidiaries, including restrictions on dividends, advances to Rapid, indebtedness, liens, guarantees, lease commitments, the disposition of property, investments and the right to engage in business combinations. See Item 5 - "Market for the Registrant's Common Equity and Related Stockholder Matters." In addition, the indenture for the 15-3/4% Notes and Variable Rate Notes provides that, under certain circumstances, a portion of the proceeds in excess of $80,000,000 from the sale of assets not in the ordinary course of business by McCrory and its subsidiaries is to be used to retire the Variable Rate Notes and the 15-3/4% Notes. During April 1985, sufficient notes were purchased on the open market to satisfy the obligation resulting from the sales of Otasco and Lerner.

Schenley

On December 18, 1978, Schenley entered into a loan agreement with a group of insurance companies ("Schenley Loan Agreement"), pursuant to which Schenley borrowed $115,000,000 evidenced by 10% promissory notes ($20,000,000 and $30,000,000 outstanding at January 31, 1985 and 1984, respectively).

During February 1983, certain provisions in the Schenley Loan Agreement were modified and Schenley made a prepayment of $56,600,000. The modified Schenley Loan Agreement provides for, among other things, four annual payments of $10,000,000, commencing in December 1983. Prepayments are permitted without premium each year up to the amount of the annual payment. Additional prepayments may be made, in certain circumstances, with declining premiums over the term of the loan (5% at January 31, 1985).

The modified Schenley Loan Agreement also contains certain amended limitations relating to Schenley's financial position, its indebtedness, dividends and liens, and investments in companies which are not wholly-owned subsidiaries. Commitments to make lease payments and transactions with affiliates, including Rapid, are restricted. Schenley may pay dividends on its common stock in an amount up to 70% of its net income (as defined) after February 1, 1983 and is permitted to make advances (as defined) to Rapid and its subsidiaries.

McGregor

On March 1, 1984, McGregor entered into a loan agreement (the "McGregor Loan Agreement") with a group of banks, pursuant to which McGregor borrowed $100,000,000. The McGregor Loan Agreement also provides for a $20,000,000 revolving credit line for working capital purposes, under which there were no outstanding borrowings as of January 31, 1985. The loan and any borrowing under the revolving credit line bears interest, payable quarterly, at the rate of 2% above the prime rate. The $100,000,000 loan is repayable in varying quarterly instalments which commenced on September 30, 1984, with the balance due December 31, 1990.

The McGregor Loan Agreement requires McGregor to maintain minimum levels of (i) working capital, (ii) cash flow, (iii) net worth, and (iv) ratios of current assets to current liabilities and total liabilities to net worth (as each term is defined). In addition, the McGregor Loan Agreement includes other material restrictions on McGregor and its subsidiaries, including restrictions on dividends, advances, additional indebtedness, liens, guarantees, lease commitments, capital expenditures, the disposition of property, investments, and the right to engage in business combinations. McGregor has pledged to the banks, as collateral for its obligations, all shares of Faberge common stock owned and assigned to the banks all royalty and license fees receivable, its equipment, its interests in real property, including assignments of leasehold interests, amounts due from factors, and its trademarks.

Pursuant to the merger with Faberge, on August 23, 1984, approximately $69,800,000 principal amount of 15-1/2% Sinking Fund Subordinated Notes due August 31, 1994 were issued. The indenture for the Notes requires that on or before August 31 of each year from 1991 to and including 1993, McGregor will redeem (without premium) 25% of the principal amount of Notes outstanding. The indenture contains material restrictions on McGregor. See Item 5 - "Market for the Registrant's Common Equity and Related Stockholder Matters."

Restricted Net Assets

As described above, certain subsidiaries are restricted by agreements which limit, among other matters, cash dividends and advances to Rapid. At January 31, 1985, the net assets of Rapid's subsidiaries were approximately $704,000,000 (includes net intercompany accounts of approximately $63,000,000), of which the restricted net assets were approximately $305,000,000.

Warrants

At January 31, 1985, there were approximately 746,500 warrants outstanding. Each warrant is exercisable for $45 principal amount of 10% sinking fund subordinated debentures, due 2006 and $3.25 in cash at an exercise price of $35. The warrants are redeemable, at Rapid's option, at $20 per warrant and expire May 15, 1994. In addition, the indentures relating to Rapid's 7-1/2% sinking fund subordinated debentures, due 1985, 12% sinking fund subordinated debentures, due 1999 and 15% sinking fund subordinated debentures, due 2008, provide that these debentures may be applied at their principal amount to the warrant exercise price. During the year ended January 31, 1985, 18,500 warrants were exercised and $832,500 principal amount of such 10% debentures were issued together with $60,125 in cash.

9. CAPITAL STOCK

At January 31, 1985, Rapid-American Holding Corporation ("Holding") owned all of the outstanding capital stock of Rapid.

During December 1984, Holding acquired all of the common stock of Rapid owned by American Financial Corporation ("AFC") and delivered to AFC its promissory note in the principal amount of $110,000,000 payable on January 15, 1985. On January 15, 1985, Holding privately placed $110,000,000 of 16% notes payable in 1995 (the "16% Notes"). The proceeds were used by Holding to pay its promissory note to AFC. In connection with the private placement, Holding exchanged the common stock of Rapid it acquired from AFC for shares of a newly created preferred stock of Rapid. The shares of preferred stock were used to secure the obligations under the 16% Notes.

There are 12,100 shares of preferred stock issued and outstanding. The annual cumulative dividend rate on the preferred stock is $1,600 per share except that the dividend payable on January 15, 1986 (which is the first dividend payment date) is $1,696 per share. The dividend rate in certain circumstances may be increased up to a maximum of $2,100 per share. The preferred stock may be redeemed at any time and from time to time at the option of Rapid at a redemption price of $10,000 per share.

10. INCOME TAXES

The examinations by the Internal Revenue Service of the Federal income tax returns of Rapid and its subsidiaries have been substantially completed for the periods ended January 31, 1978. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amounts accrued in the consolidated balance sheets, in the opinion of management, are adequate to cover amounts which may ultimately be payable.

The provision (benefit) for income taxes included in the statements of consolidated operations consisted of the following:

	Year Ended January 31,		
	1985	1984	1983
		(In Thousands)	
Continuing operations:			
Federal:			
Currently payable	$(13,931)	$(8,840)	$(15,264)
Deferred	1,326	8,831	4,759
Foreign:			
Currently payable	984	141	169
Deferred	508	-	-
State	6,352	5,136	4,181
	(4,761)	5,268	(6,155)
Operations sold:			
Federal:			
Currently payable	9,220	27,201	27,531
Deferred	7,385	3,635	2,697
State	2,100	4,347	4,805
	18,705	35,183	35,033
	$ 13,944	$40,451	$ 28,878

Deferred Federal and foreign income taxes relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences and the tax effect of each were as follows:

	Year Ended January 31,		
	1985	1984	1983
		(In Thousands)	
Amortization of debt discount	$ 2,452	$ 3,040	$ 3,185
Excess of tax over book depreciation	1,480	2,300	936
Capital leases	438	696	664
Net change in reserves for store closings	232	1,101	908
Disposition of Canadian alcoholic beverage operations	(913)	(931)	(2,657)
Other	(1,855)	2,625	1,723
Total	$ 1,834	$ 8,831	$ 4,759

The provision (benefit) for income taxes relating to continuing operations for the years ended January 31, 1985, 1984 and 1983 represented effective income tax rates of (52.7)%, 27.3% and (51.0)%, respectively. These rates are different than the rates computed by applying the statutory Federal income tax rate to income (loss) from continuing operations (excluding minority interest) before provision (benefit) for income taxes. The reasons for the variances from the statutory rate were as follows:

	Year Ended January 31,		
	1985	1984	1983
		(In Thousands)	
Provision (benefit) for income taxes computed at Federal statutory rate ..	$(4,158)	$ 8,870	$(5,557)
Increase (decrease) in income taxes resulting from:			
Dividends received credit	(4,645)	(327)	-
Investment tax credits	(3,969)	(1,041)	(2,191)
State tax provision (net of Federal income taxes)	3,431	2,772	2,257
Amortization of excess cost of investments over related equities and other intangibles	2,142	1,438	1,505
Equity in loss of HRT	1,490	-	-
McGregor sale of common stock	-	(2,936)	-
Capital gains rate differential	(366)	(1,790)	(23)
Amortization of excess of equity over related cost of investment ...	-	-	(242)
Foreign income	-	-	(533)
Other	1,314	(1,718)	(1,371)
Provision (benefit) for income taxes .	$(4,761)	$ 5,268	$(6,155)

11. DUE FROM STOCKHOLDERS AND AFFILIATES

Net unsecured amounts due from stockholders and affiliates are deducted from stockholders' equity. The maximum amount due to Rapid from Meshulam Riklis and his wholly-owned entities during the years ended January 31, 1985 and 1984 was approximately $58,000,000 and $33,000,000, respectively.

See Note 5 and Item 13 - "Certain Relationships and Related Transactions," paragraphs 2, 3, 4, 5, 6, 9, 11, 19 and 22, which are an integral part of these financial statements.

12. PENSION PLANS

Rapid and its subsidiaries have various contributory and noncontributory pension plans covering eligible employees. The provisions for pension cost relating to the plans of continuing operations were $6,438,000, $6,751,000 and $9,641,000 for the years ended January 31, 1985, 1984 and 1983, respectively.

The decrease in pension costs for the years ended January 31, 1985 and 1984 results primarily from changing the assumed rate of return on pension fund assets associated with present retired, terminated and vested participants from 8% to 11% in 1984, and changing the assumed rate of return on pension fund assets from 7% to 8% in 1983. It is the general policy to fund accrued pension cost as required.

The accumulated combined plan benefits and combined plan net assets for the various pension plans of continuing operations were as follows:

	January 1,	
	1985	1984
	(In Millions)	
Actuarial present value of accumulated plan benefits:		
Vested	$152.5	$130.9
Nonvested	11.3	7.7
	$163.8	$138.6
Net assets available for benefits	$170.1	$149.3

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 9%.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable generally over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1985, 1984 and 1983, $3,900,000, $1,400,000 and $1,200,000, respectively, were provided from continuing operations for such allowances.

13. PROPERTY AND LEASE COMMITMENTS

Property, plant and equipment consisted of the following:

	January 31,	
	1985	1984
	(In Thousands)	
Land	$ 40,275	$ 36,835
Buildings, store properties and warehouses	103,192	89,387
Furniture, fixtures and leasehold improvements	233,319	331,884
Machinery and equipment	122,865	94,460
Total	$499,651	$552,566

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the initial leases generally range from 10 to 25 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rental based upon percentages of sales, real estate taxes, insurance and maintenance costs.

Property and equipment under capital leases consisted of the following:

	January 31, 1985	January 31, 1984
	(In Millions)	
Buildings and store properties	$114.7	$115.2
Machinery and equipment	19.1	9.9
Less accumulated amortization	(84.0)	(93.5)
Net	$ 49.8	$ 31.6

The minimum rental commitments on leases from continuing operations (exclusive of common area charges) in effect at January 31, 1985 are as follows:

Years Ending January 31,	Capital Leases	Operating Leases
	(In Millions)	
1986	$ 13.3	$ 39.0
1987	12.6	36.7
1988	11.6	34.2
1989	10.4	32.0
1990	8.3	28.9
Thereafter	67.1	176.5
Total minimum payments required*	123.3	$347.3
Less:		
Amount representing interest	47.0	
Amount representing estimated executory costs included in minimum lease payments	1.9	
	48.9	
Present value of net minimum lease payments	74.4	
Less current portion	7.8	
Long-term obligations	$ 66.6	

* Minimum payments have not been reduced by minimum sublease rentals of $9.8 million under capital leases and $65.5 million under operating leases due in the future under noncancellable subleases. Contingent rentals which may be paid under certain leases have not been included.

Rental expense relating to operating leases of continuing operations was as follows:

	Year Ended January 31,		
	1985	1984	1983
		(In Millions)	
Minimum rentals	$ 36.4	$ 31.7	$ 31.0
Contingent rentals and expenses ..	22.3	20.9	18.4
Less - sublease rentals	(10.9)	(11.6)	(10.7)
Net	$ 47.8	$ 41.0	$ 38.7

Contingent rentals applicable to capital leases of continuing operations amounted to $2.0 million, $1.5 million and $1.4 million, respectively, in the years ended January 31, 1985, 1984 and 1983.

14. LITIGATION, COMMITMENTS AND CONTINGENCIES

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of corporation laws or product liability laws. Substantial damages or significant declaratory or injunctive relief are requested in certain of these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers, former employees and others in which substantial damages are or may be requested. Rapid and its subsidiaries are unable to predict the possible range of damages in those actions where an amount of monetary damages is not specified. By reason of certain standards defined in a Statement of Policy issued by the American Bar Association, counsel for Rapid is foreclosed from expressing a judgment as to the ultimate outcome of the outstanding actions and claims against Rapid and its subsidiaries. While Rapid and its subsidiaries intend to defend vigorously such actions and claims, management, after discussions with counsel, is unable to predict with certainty the ultimate outcome of such actions and claims or whether any of them will result in any significant liability to Rapid on a consolidated basis. See Item 3 - "Legal Proceedings," which is an integral part of these financial statements.

At January 31, 1985, Rapid was guarantor of the following: (a) approximately $18,000,000 of lease payments supporting industrial revenue bonds and approximately $23,000,000 of other lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; (b) other obligations of approximately $2,000,000, certain of which are lease payments of subsidiaries; and (c) certain obligations of Meshulam Riklis or entities wholly-owned by him aggregating approximately $22,000,000 (see Item 13 - "Certain Relationships and Related Transactions," paragraphs 1, 9, 11 and 14).

Rapid and certain of its subsidiaries make payment to suppliers by means of letters of credit. In addition, certain subsidiaries of Rapid have obtained letters of credit to secure obligations under employment agreements. At January 31, 1985, letters of credit outstanding aggregated approximately $33,000,000.

In connection with Coastal Corp.'s acquisition of American Natural Resources during March 1985, Schenley, pursuant to a commitment, purchased for $30,000,000 securities of Coastal Corp. In connection with Triangle Corp.'s acquisition of National Can Corporation during April 1985, Schenley, pursuant to a commitment, purchased for $10,000,000 securities of Triangle Corp. In connection with Mesa Petroleum Corp.'s proposed acquisition of Unocal Corporation, during April 1985, subsidiaries of Rapid committed to acquire $100,000,000 of securities from affiliates of Mesa Petroleum Corp.

J. J. Newberry Co. has a $9,000,000 industrial revenue bond commitment with Laurens County, South Carolina to build a distribution center and McCrory has a $15,000,000 equipment lease commitment from a bank for the equipment to be installed in the distribution center.

In connection with Meshulam Riklis' employment agreement, Rapid is obligated to make a loan to him in the amount of $12,500,000. See Item 13 - "Certain Relationships and Related Transactions," paragraph 2, which is an integral part of these financial statements.

15. WORLD WIDE DISTRIBUTORS, INC.

As of June 1, 1984, World Wide entered into agreements to advise, furnish and monitor the computer and communications needs of certain subsidiaries of Rapid. See Item 13 - "Certain Relationships and Related Transactions," paragraph 15, which is an integral part of these financial statements.

16. OTHER REVENUES

Other revenues - net of continuing operations consisted of the following:

	Year Ended January 31,		
	1985	1984	1983
		(In Thousands)	
Interest income	$29,559	$15,946	$27,341
Dividends	13,059	860	-
Royalties - net	11,325	5,575	4,617
Non-taxable gain on the public sale by McGregor of its common stock	-	7,912	-
Gain on sales of aircraft	4,654	-	-
Gain on sales of securities	2,057	-	-
Gain on sales of other property, plant and equipment	1,147	2,349	-
Gain on cash purchases of subordinated debentures for sinking funds	245	329	1,655
Income (loss) of nonconsolidated subsidiaries - net	(2,976)	603	1,686
Gain on sale of race track	-	6,760	-
Gain on sale of lease	-	551	-
Sundry - net	5,741	8,435	8,410
Total	$64,811	$49,320	$43,709

17. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended January 31,		
	1985	1984	1983
		(In Thousands)	
Maintenance and repairs	$ 17,177	$ 13,667	$ 17,957
Depreciation and amortization of property, plant and equipment	$ 29,151	$ 21,742	$ 21,072
Amortization of intangible assets	$ 4,669	$ 4,681	$ 4,751
Taxes, other than income taxes:			
Property	$ 9,570	$ 8,789	$ 9,302
Payroll	27,632	22,543	23,861
Federal excise, rectification taxes and duties on imported products ..	102,919	107,886	173,089
State beverage taxes	-	-	732
Other	1,349	1,187	1,257
Total	$141,470	$140,405	$208,241
Advertising costs	$ 71,098	$ 49,270	$ 55,049

All amounts above pertain to continuing operations.

18. ACCRUED EXPENSES AND SUNDRY

Accrued expenses and sundry consisted of the following:

	January 31,	
	1985	1984
	(In Thousands)	
Interest	$ 40,440	$ 18,914
Salaries, wages, commissions, etc.	36,805	46,586
Taxes, other than Federal and foreign income ...	32,875	42,313
Advertising	13,115	3,307
HRT Chapter 11 Bankruptcy Code liabilities	7,869	-
Trucking and warehousing	7,857	-
Contributions to employee benefit plans	7,177	12,903
Rents	6,867	10,326
Reserves for store closings	2,877	2,719
Other	29,116	25,052
Total	$184,998	$162,120

19. EXTRAORDINARY ITEMS

During the year ended January 31, 1985, Rapid purchased approximately $156,000,000 principal amount of its 10% Sinking Fund Subordinated Debentures, due 2006. Rapid recorded an extraordinary charge of $18,240,000 on the purchase representing the difference between the carrying value of the debentures purchased (the principal amount reduced by applicable unamortized debt discount) and the purchase price of the debentures, net of Federal income tax benefits of $15,537,000.

Rapid, pursuant to an exchange offer which expired in November 1983, issued $46,419,000 principal amount of 11-3/4% sinking fund subordinated debentures, due 2009 in exchange for an equal principal amount of 6% sinking fund subordinated debentures, due 1988. Rapid recorded an extraordinary gain of $2,281,000 (after deferred Federal income taxes of $1,943,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

McCrory, pursuant to an exchange offer which expired in August 1983, issued $6,835,000 principal amount of 9-1/2% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-1/2% sinking fund subordinated debentures, due 1994 (new issue). McCrory recorded an extraordinary gain of $679,000 (after deferred Federal income taxes of $578,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

Rapid, pursuant to an exchange offer which expired in March 1983, issued $13,391,690 principal amount of 15% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-1/2% sinking fund subordinated debentures, due 1985. Rapid recorded an extraordinary gain of $527,000 (after deferred Federal income taxes of $449,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

McCrory, pursuant to exchange offers which expired during February and March 1983 (i) issued $32,731,000 principal amount of 9-1/2% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-1/2% sinking fund subordinated debentures, due 1994 (old issue); (ii) issued $43,491,000 principal amount of 9-5/8% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-5/8% sinking fund subordinated debentures, due 1997; and (iii) issued $47,093,000 principal amount of 9-3/4% sinking fund subordinated debentures, due 2008 in exchange for an equal principal amount of 7-3/4% sinking fund subordinated debentures, due 1995. McCrory recorded an extraordinary gain of $13,307,000 (after deferred Federal income taxes of $11,335,000) on the three exchanges representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

20. INTERIM FINANCIAL INFORMATION (Unaudited)

Year Ended January 31, 1985	April 30	July 31	Oct. 31	Jan. 31
	Quarter Ended, (In Millions)			
Net sales from continuing operations	$399.5	$389.2	$460.7	$501.7
Gross profit from continuing operations	128.8	135.2	165.4	183.4
Income (loss) from continuing operations before provision (benefit) for income taxes and extraordinary charge	(4.4)	(18.8)	4.6	5.9
Operations sold	3.2	2.6	1.9	10.1
Income (loss) before extraordinary charge	(.7)	(10.5)	1.9	19.2
Net income (loss)	(19.0)	(10.5)	1.9	19.2

Year Ended January 31, 1984	April 30	July 31	Oct. 31	Jan. 31
Net sales from continuing operations	$317.2	$331.8	$383.1	$410.4
Gross profit from continuing operations	95.7	106.8	124.1	139.6
Income (loss) from continuing operations before provision for income taxes and extraordinary credit	(12.8)	(.9)	24.9	6.9
Operations sold	6.4	7.8	8.3	18.1
Income (loss) before extraordinary credit	(1.1)	6.5	24.9	23.2
Net income (loss)	(1.1)	7.2	27.1	23.2

21. PARENT COMPANY FINANCIAL STATEMENTS

The following are condensed financial statements of Rapid-American Corporation (Parent Company):

CONDENSED BALANCE SHEETS

ASSETS	January 31, 1985	January 31, 1984
	(In Thousands)	
Current assets	$ 68,005	$ 5,439
Investments and advances	660,101	518,353
Property, plant and equipment - net	34,020	29,829
Intangibles - net	207,293	210,930
Other assets	40,845	17,624
Total	$1,010,264	$782,175
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	$ 91,101	$ 95,674
Long-term debt, less current maturities and unamortized discount and expense	783,845	528,006
Other noncurrent items	58,872	61,732
Stockholders' equity, less due from stockholders and affiliates ($56,521,000 and $52,375,000)	76,446	96,763
Total	$1,010,264	$782,175

Aggregate principal amount of long-term debt at January 31, 1985 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1986	$ 43,268	1990	$ 223,742
1987	52,479	1995	459,940
1988	22,310	2000	159,335
1989	78,153	2005	215,227
1990	27,532	2010	197,442
TOTAL	$223,742	TOTAL	$1,255,686

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended January 31,		
	1985	1984	1983
		(In Thousands)	
Net sales and other revenues	$ 25,802	$ 17,145	$ 9,749
Costs, expenses and other deductions	(24,213)	(25,256) *	(19,330)
Interest and debt expense	(128,189)	(93,051)	(82,031)
Income tax benefits	57,401	48,906	40,809
Loss from operations before equity in income of subsidiaries and extraordinary items	(69,199)	(52,256)	(50,803)
Equity in income from continuing operations of subsidiaries	61,280	65,112	44,885
Income (loss) from continuing operations before extraordinary items	(7,919)	12,856	(5,918)
Equity in income from operations sold	17,803	40,628	38,583
Income before extraordinary items ...	9,884	53,484	32,665
Extraordinary charge - net of tax ...	(18,240)	-	-
Extraordinary credit - net of tax ...	-	2,281	527
Equity in extraordinary credit of subsidiary - net of tax	-	679	13,307
Net income (loss)	$ (8,356)	$ 56,444	$ 46,499

* Includes additional bonuses of $6,725,000 earned by operating personnel of McCrory Stores.

CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31, 1985	1984	1983
	(In Thousands)		
Funds Provided:			
Continuing Operations:			
Income (loss) before extraordinary items	$ (7,919)	$ 12,856	$ (5,918)
Less - equity in income of subsidiaries	61,280	65,112	44,885
Loss before equity in income of subsidiaries	(69,199)	(52,256)	(50,803)
Cash dividends from subsidiaries	32,417	52,709	58,816
Items not currently requiring (providing) funds - depreciation and amortization (including debt discount and intangibles) and deferred income taxes	28,433	14,469	15,499
Non-taxable gain on public sale by McGregor Corporation of its common stock	-	(7,912)	-
Funds provided by (used in) operations	(8,349)	7,010	23,512
Extraordinary (charge) credit:			
Gain (loss) on debenture purchases/exchanges	(18,240)	2,281	527
Deferred income taxes	(3,245)	1,943	449
Decrease in long-term debt	(80,349)	(4,224)	(976)
Redemption of preferred stock by McGregor Corporation	-	30,000	-
Increase in other long-term debt	364,087	-	1,198
Issuance of preferred stock	110,000	-	-
Decrease in excess cost	1,147	-	-
	365,051	37,010	24,710
Funds Applied:			
Purchases of marketable securities and other investments	1,997	31,341	2,686
Due from stockholders and affiliates	4,146	13,498	33,014
Increase in other assets	23,559	9,185	777
Decrease in other long-term debt	51,122	5,083	15,166
Acquisition of McGregor common stock	1,790	-	-
Acquisition/redemption of common, preference and preferred stocks and warrants	-	-	11,787
Cash dividends	6,324	1,827	4,005
Additions to property, plant and equipment - net	4,758	1,749	6,491
Exchange of common stock	110,000	-	-
Increase (decrease) in investments and advances	77,459	(2,829)	(57,976)
Marketable securities transferred from subsidiary	15,575	-	-
Loans to certain directors and officers - net	-	605	3,291
Other - net	1,182	(2,807)	3,072
	297,912	57,652	22,313
Increase (Decrease) in Working Capital	$ 67,139	$(20,642)	$ 2,397
Increase (Decrease) in Working Capital by Major Components:			
Current assets	$ 62,566	$(27,881)	$ 13,725
Current liabilities	4,573	7,239	(11,328)
Increase (Decrease) in Working Capital	$ 67,139	$(20,642)	$ 2,397

22. SEGMENT INFORMATION

See Item 1 - "Business - Segment Information" for net sales, operating profit (loss) and asset information relating to Rapid's industry segments, which is an integral part of these financial statements. Additional information concerning industry segments follows:

	Year Ended January 31,					
	1985		1984		1983	
	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization
	(In Millions)					
Continuing Operations:						
Retail Merchandising:						
McCrory Stores	$46.5	$16.0	$16.7	$12.7	$10.4	$11.9
Gault	-	.1	-	.1	.1	.1
Alcoholic Beverages- Schenley	1.8	2.7	2.1	2.9	4.3	3.4
Consumer Products:						
McGregor	5.0	2.0	4.2	1.9	1.4	2.5
Faberge	1.6	3.5	-	-	-	-
Corporate and Others .	43.3	4.9	5.1	4.1	20.1	3.2
Total	$98.2	$29.2	$28.1	$21.7	$36.3	$21.1
Operations Sold	$39.6	$14.7	$29.5	$16.1	$28.6	$14.7

SCHEDULE I

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES

January 31, 1985
(In Thousands)

Column A	Column B	Column C	Column D
Name of issuer and title of issue	Number of shares or units-principal amounts bonds and notes	Amount at which carried in balance sheet	Value based on market quotation at balance sheet date
Bonds and redeemable preferred stocks:			
Exchangeable variable rate debentures		$ 30,513	$ 30,450
Redeemable preferred stocks		130,706	130,933
		161,219	161,383
Common stocks		46,403	51,342
Preferred stocks		62,759	63,044
		$270,381	$275,769

Investments in issues exceeding 2% of total assets were as follows:

Occidental Petroleum Corporation - $55 million
F.W. Woolworth Co. - $38 million

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS,
AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED
For the Three Years Ended January 31, 1985
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
	Balance at beginning of year	Additions (Other)	Amounts Collected (Other)	Balance at end of year	
Name of debtor (1)				Current	Not current
1985:					
Meshulam Riklis and wholly-owned entities (2)	$28,965 2,536	$35,600 2,220 (3) 2,175 (4) (8,422)(5)	$14,549 57 (6)	$ 28	$45,904 2,536 (7)
Carl H. Lindner and majority-owned entity (2)	12,220	12,000	22,000 (8) 2,220 (3)		
Rapid-American Holding Corporation (formerly Riklis Family Corporation) (2)	5,000	2,452			7,452
AITS, Inc. (2)	5,011	365 2,000 (4) 2,175 (4)	2,175 (4)		7,376
Specialty Store Group, Inc. (2)	425		75	100	250
Harold S. Divine (2) .	1,000				1,000
Acklinis Associates ..	7,059		337	300	6,422 (7)
American Recreation Group, Limited Partnership	2,531		85		2,446 (7)
Leonard C. Lane	7,375		1,125		6,250
Isidore A. Becker	4,175		4,175 (4)		
Arie Genger	1,200				1,200
Daniel J. Manella	1,200				1,200
Charles Jarvie		1,000			1,000
Bernard J. Blaney	600				600
Howard S. Feldman		550			550
Ben Litwak	300				300
	79,597	52,115	46,798	428	84,486
Unamortized Discount and Reserves	(4,785)	(5,051)	(204)		(9,632)
Total	$74,812	$47,064	$46,594	$ 428	$ 74,854

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED
For the Three Years Ended January 31, 1985
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
	Balance at beginning of year	Additions (Other)	Amounts Collected	Balance at end of year	
Name of debtor (1)				Current	Not current
1984:					
Meshulam Riklis and wholly-owned entities (2)	$26,508	$29,310	$26,853	$ 34	$ 28,931
		2,536			2,536 (7)
Carl H. Lindner and majority-owned entity (2)	2,220	10,000			12,220
Riklis Family Corporation (2)	5,245	(245)			5,000
AITS, Inc. (2)	4,900	111			5,011
Specialty Store Group, Inc. (2)	475		50	75	350
Harold S. Divine (2) .	286	1,000	286		1,000
Acklinis Associates ..		7,280	221	337	6,722 (7)
American Recreation Group, Limited Partnership		2,531			2,531 (7)
Leonard C. Lane	6,255	1,125	5	1,125	6,250
Isidore A. Becker	2,025	2,175	25		4,175
Arie Genger	1,200				1,200
Daniel J. Manella	1,286	200	286		1,200
Bernard J. Blaney	600				600
Ben Litwak	300				300
	51,300	56,023	27,726	1,571	78,026
Unamortized Discount .	(5,176)	(68)	(459)		(4,785)
Total	$46,124	$55,955	$27,267	$1,571	$ 73,241

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED
For the Three Years Ended January 31, 1985
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
Name of debtor (1)	Balance at beginning of year	Additions (Other)	Amounts Collected	Balance at end of year Current	Not current
1983:					
Meshulam Riklis and wholly-owned entities (2)	$ 3,350	$25,000 (2,112)	$ 10	$ 10	$ 26,218
Carl H. Lindner (2) ..	2,220				2,220
Riklis Family Corporation (2)		5,245			5,245
AITS, Inc. (2)		4,900			4,900
Specialty Store Group, Inc. (2)	500		25	50	425
Leonard C. Lane	6,260		5	5	6,250
Franconia Associates .	312		32	33 (9)	247 (9)
Isidore A. Becker	2,050		25	25	2,000
Arie Genger	1,200				1,200
Daniel J. Manella	486	1,000	200	286	1,000
Bernard J. Blaney	600				600
Ben Litwak		300			300
Harold S. Divine	286			286	
	17,264	34,333	297	695	50,605
Unamortized Discount..	(4,376)	(978)	(178)		(5,176)
Total	$12,888	$33,355	$ 119	$ 695	$ 45,429

(1) See Item 13 - "Certain Relationships and Related Transactions".
(2) For financial statement purposes, included in amounts due from stockholders and affiliates in the accompanying balance sheets.
(3) Receivable assumed by Meshulam Riklis.
(4) Receivable deemed repaid by Isidore A. Becker's assignment of certain obligations of AITS and Riviera to Rapid in approximately the same aggregate principal amount. World Wide subsequently acquired one of the obligations in the amount of $2,175,000.
(5) Note issued to World Wide for purchase of Rapid's Serial Zero Coupon Senior Subordinated Debentures.
(6) Transfer to assets held for sale.
(7) For financial statement purposes, included in other assets - deferred charges, mortgages and sundry (collateralized by various properties).
(8) Carl H. Lindner is no longer a stockholder of Rapid.
(9) Assumed during the year ended January 31, 1984 by an entity wholly-owned by Meshulam Riklis.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

For the Three Years Ended January 31, 1985
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1985:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable - trade	$ 3,126	$1,474	$4,671 (2) 220	$1,005 (1) 1,208	$ 7,278
Doubtful accounts receivable - other (3)	794	3,120		727	3,187
Total	3,920	4,594	4,891	2,940	10,465
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (4)	8,118		196 (6)		8,314
Reserves for store closings ...	9,073	909 (7)	1,156	1,092	10,046
Total	17,191	909	1,352	1,092	18,360
Total	$21,111	$5,503	$6,243	$4,032	$28,825
1984:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable: Trade	$ 3,522	$2,305	$ 100	$2,301 500 (5)	$ 3,126
Transportation claims	50			50	-
Allowances for discounts and allowances	438			938 (5) (500)(5)	-
Total	4,010	2,305	100	3,289	3,126
Doubtful accounts receivable - other (3)	826	157		189	794
Total	4,836	2,462	100	3,478	3,920
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (4)	4,945		3,173 (6)		8,118
Reserves for store closings ...	11,562	1,521 (7)		4,010	9,073
Total	16,507	1,521	3,173	4,010	17,191
Total	$21,343	$3,983	$3,273	$7,488	$21,111

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

For the Three Years Ended January 31, 1985
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1983:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable:					
Trade	$ 3,302	$3,008		$2,788	$ 3,522
Transportation claims	50				50
Allowances for discounts and allowances	425	13			438
Total	3,777	3,021		2,788	4,010
Doubtful accounts receivable - other (3)	1,032	446		652	826
Total	4,809	3,467		3,440	4,836
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (4)	6,375	37		1,467	4,945
Reserves for store closings	13,593	2,507 (7)		4,538	11,562
Total	19,968	2,544		6,005	16,507
Total	$24,777	$6,011		$9,445	$21,343

Notes:

(1) Operations sold.
(2) Amounts applicable to subsidiaries at dates of acquisition of majority interest.
(3) Reserve account has been netted against applicable accounts receivable.
(4) Deducted from investments to which they apply.
(5) Reclassifications.
(6) Includes $452,000 in 1985 and $3,769,000 in 1984 for foreign currency translation adjustment.
(7) Includes imputed interest of $909,000 in 1985, $1,521,000 in 1984 and $2,074,000 in 1983 and an additional provision of $433,000 in 1983.

INDEX TO EXHIBITS

Exhibits		Page No.
3(a)	Rapid's Certificate of Incorporation, as amended by a Certificate of Amendment, dated January 10, 1985, and a Certificate of Designation, dated January 15, 1985, designating the rights and preferences of Rapid's Preferred Stock, together with a Certificate of Correction to said Certificate of Designation, dated January 25, 1985.	E-10 ***
(b)	Rapid's By-Laws, filed as Exhibit 3(b) to the Joint Registration Statement of Rapid and Kenton on Form S-14, File No. 2-70073 (the "Joint Registration Statement"), which is incorporated herein by reference.	*
4(a)	Indenture, dated as of January 31, 1981, between Rapid and Bradford Trust Company, as Trustee, for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006, filed as Exhibit 4 to the Joint Registration Statement, which is incorporated herein by reference.	*
(b)	Indenture, dated as of March 1, 1984, between Rapid and Sterling National Bank & Trust Company, as Trustee, for Rapid's 14-1/2% Senior Subordinated Notes, due 1994, filed as Exhibit 4(b) to Rapid's Form 10-K for the fiscal year ended January 31, 1984 (the "1984 10-K"), which is incorporated herein by reference.	*
(c)	Indenture, dated as of March 1, 1984, between Rapid and Sterling National Bank & Trust Company, as Trustee, for Rapid's Serial Zero Coupon Senior Subordinated Debentures, due 1985 through 2007, filed as Exhibit 4(c) to the 1984 10-K, which is incorporated herein by reference.	*
(d)**		
10(a)(1)	Employment Agreement between Schenley and Isidore A. Becker, dated as of August 1, 1975, filed as Exhibit 10(a)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of August 1, 1975, between Schenley and Isidore A. Becker, filed as Exhibit 10(a)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(3)	Severance Agreement, dated as of April 27, 1984, between Schenley and Isidore A. Becker.	E-11 ***

Exhibits		Page No.
(4)	Agreement, dated April 27, 1984, among Rapid, Schenley, Meshulam Riklis, and Isidore A. Becker, relating to, among other things, the assignment to Rapid and Schenley of certain obligations of AITS to Becker, filed as Exhibit 10(30) to AITS' Form 10-K for the fiscal year ended March 31, 1984, which is incorporated herein by reference.	*
(b)	Employment Agreement between McCrory and Harold S. Divine, dated as of December 15, 1983, filed as Exhibit 10.33 to Rapid's Registration Statement on Form S-2, Registration No. 2-88385 (the "Form S-2"), which is incorporated herein by reference.	*
(c)(1)	Employment Agreement between McCrory and Arie Genger, dated as of February 1, 1980, filed as Exhibit 10(d)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Letter Agreement, dated as of February 1, 1980, relating to the Employment Agreement of even date between McCrory and Arie Genger, filed as Exhibit 10(d)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(3)	Severance Agreement, dated December 1, 1981, between McCrory and Arie Genger, filed as Exhibit 20(a) to Rapid's Form 10-K for the fiscal year ended January 31, 1982 (the "1982 10-K"), which is incorporated herein by reference.	*
(d)(1)	Employment Agreement between Rapid and Leonard C. Lane, dated as of February 1, 1974, filed as Exhibit 10(e)(1) to the Joint Registration Statement, which is incorporated herein by reference.	*
(2)	Supplemental Agreement, dated as of October 19, 1978, to the Employment Agreement, dated as of February 1, 1974, between Rapid and Leonard C. Lane, filed as Exhibit 10(e)(2) to the Joint Registration Statement, which is incorporated herein by reference.	*
(3)	Severance Agreement, dated February 3, 1982, between Rapid and Leonard C. Lane, filed as Exhibit 20(b) to the 1982 10-K, which is incorporated herein by reference.	*
(e)	Employment Agreement, dated as of November 20, 1982, between Rapid and Meshulam Riklis, filed as Exhibit (i) to Rapid's Form 10-Q for the fiscal quarter ended July 31, 1982 (the "July 1982 10-Q"), which is incorporated herein by reference.	*

Exhibits		Page No.
(f)(1)	Employment Agreement, dated as of December 15, 1983, between Daniel J. Manella and McCrory, filed as Exhibit 10.34 to the Form S-2, which is incorporated herein by reference.	*
(2)	Employment Agreement, dated as of October 27, 1983, between Daniel J. Manella and McGregor, filed as Exhibit 10.19 to McGregor's Registration Statement on Form S-1, Registration No. 2-85703, which is incorporated herein by reference.	*
(g)	Employment Agreement, dated as of January 25, 1984, between Schenley and Charles L. Jarvie, filed as Exhibit 10.35 to the Form S-2, which is incorporated herein by reference.	*
(h)(1)	Employment Agreement, dated as of February 1, 1982, between McCrory and J. Philip Lux, filed as Exhibit 10(h) to the 1984 10-K, which is incorporated herein by reference.	*
(2)	Amendment to Employment Agreement, dated as of February 1, 1985, between McCrory and J. Philip Lux.	E-12 ***
(3)	Agreement, dated as of February 1, 1985, between Rapid and J. Philip Lux, with respect to consulting services.	E-13 ***
(i)	Employment Agreement, dated as of July 1, 1981, between Bernard J. Blaney and McCrory, filed as Exhibit 10(1) to the 1982 10-K, which is incorporated herein by reference.	*
(j)(1)	Employment Agreement between McCrory and Ben Litwak, dated as of November 30, 1982, filed as Exhibit 10(u) to Rapid's Form 10-K for the fiscal year ended January 31, 1983 (the "1983 10-K "), which is incorporated herein by reference.	*
(2)	Letter Agreement, dated September 19, 1983, relating to the Employment Agreement, dated as of November 30, 1982, between McCrory and Ben Litwak, filed as Exhibit 10(j)(2) to the 1984 10-K, which is incorporated herein by reference.	*
(3)	Amendment to Employment Agreement and Letter Agreement, dated as of February 1, 1985, between McCrory and Ben Litwak, filed as Exhibit 10(i)(4) to the Registration Statement of McCrory on Form S-14, File No. 2-95758 (the "McCrory Registration Statement"), which is incorporated herein by reference.	*

Exhibits		Page No.
(k)	Employment Agreement, dated as of November 29, 1984, between McCrory and Stephen L. Pistner, filed as Exhibit 10(o) to the McCrory Registration Statement, which is incorporated herein by reference.	*
(l)	Employment Agreement, dated as of February 1, 1984, between Schenley and Howard S. Feldman.	E-14 ***
(m)	Loan Agreement, dated October 15, 1981, between Bernard J. Blaney and McCrory filed as Exhibit 10(m) to the 1982 10-K, which is incorporated herein by reference.	*
(n)	Loan Agreement, dated December 1, 1981, between Arie Genger and McCrory filed as Exhibit 10(n) to the 1982 10-K, which is incorporated herein by reference.	*
(o)	Loan Agreement, dated February 3, 1982, between Leonard C. Lane and Rapid filed as Exhibit 10(o) to the 1982 10-K, which is incorporated herein by reference.	*
(p)(1)	Loan Agreement, dated August 10, 1982, between Meshulam Riklis and Rapid, filed as Exhibit (ii) to the July 1982 10-Q, which is incorporated herein by reference.	*
(2)	Loan Agreement, dated August 10, 1982, between Meshulam Riklis and Rapid, filed as Exhibit (iii) to the July 1982 10-Q, which is incorporated herein by reference.	*
(3)	Agreement, dated as of June 1, 1984, among Rapid, World Wide, and Meshulam Riklis, with respect to, among other things, the foregoing loans, filed as an exhibit to Rapid's Form 10-Q for the fiscal quarter ended July 31, 1984, which is incorporated herein by reference.	*
(q)	Loan Agreement between McCrory and Ben Litwak, dated November 30, 1982, filed as Exhibit 10(v) to the 1983 10-K which is incorporated herein by reference.	*
(r)	Loan Agreement, dated February 1, 1985, between McCrory and Ben Litwak, filed as Exhibit 10(i)(5) to the McCrory Registration Statement, which is incorporated herein by reference.	*
(s)	Loan Agreement, dated as of February 1, 1985, between Rapid and J. Philip Lux.	E-15 ***

Exhibits		Page No.
(z)(1)	Agreement, dated June 1, 1984, between McCrory and World Wide Computer and Communications, relating to the provision of computer services to McCrory.	E-23 ***
(2)	Agreement, dated June 1, 1984, between Schenley and World Wide Computer and Communications, relating to the provision of computer services to Schenley.	E-24 ***
(aa)	Contract of Sale, dated as of January 31, 1983, between Friedman-Marks, Inc., a wholly-owned subsidiary of Rapid, and Acklinis Associates, with amendment thereto, dated July 5, 1983, respecting the sale of a lease and leasehold estate in Richmond, Virginia.	E-25 ***
(bb)	Contract of Sale, dated as of January 31, 1983, between S. Klein Department Stores, Inc. and Acklinis Associates, with purchase money note attached, respecting the sale of a lease and leasehold estate in Yonkers, New York.	E-26 ***
(cc)	Promissory Note of World Wide to Rapid in the principal amount of $15,000,000.	E-27 ***
(dd)	Agreement, dated February 29, 1984, among Rapid, World Wide, and AFC, with promissory note of World Wide attached, respecting purchase by Rapid of its 7% Debentures.	E-28 ***
(ee)	Zero Coupon Note of Holding (formerly, Riklis Family Corporation), in the principal amount of $5,564,785.	E-29 ***
(ff)	Schenley's Employees' Retirement and Benefit Plan, Restated effective January 31, 1976 and as amended through May 24, 1979, filed as Exhibit 10(j) to the Joint Registration Statement, which is incorporated herein by reference.	*
(gg)	McCrory's Plan of Retirement for Directors adopted January 10, 1978, filed as Exhibit 10(k) to the Joint Registration Statement, which is incorporated herein by reference.	*
(hh)	ILC Debt Agreement, dated February 3, 1982, among Rapid, ILC, and Leonard C. Lane filed as Exhibit 10(q) to the 1982 10-K, which is incorporated herein by reference.	*
(ii)(1)	Merger Agreement, dated as of January 19, 1984, between McGregor and Faberge, Incorporated, set forth as Exhibit A to the Prospectus forming part of McGregor's Registration Statement on Form S-14, Registration No. 2-90048 (the "McGregor's S-14"), which is incorporated herein by reference.	*

Exhibits		Page No.
(2)	Credit Agreement, dated as of March 1, 1984, among McGregor and the banks listed therein, filed as Exhibit 10.29 to the McGregor S-14, which is incorporated herein by reference.	*
(3)	Security Agreement, dated as of March 1, 1984, between McGregor and Manufacturers Hanover Trust Company, as agent (the "Agent"), filed as Exhibit 10.30 to the McGregor S-14, which is incorporated herein by reference.	*
(4)	Pledge Agreement, dated as of March 1, 1984, made by McGregor in favor of the Agent, filed as Exhibit 10.31 to the McGregor S-14, which is incorporated herein by reference.	*
(5)	Agreement, dated March 13, 1984, between McGregor and Shamrock Holdings Inc., filed as Exhibit (c)(3) to McGregor's Schedule 14D-1, filed with the Commission on January 23, 1984, which is incorporated herein by reference.	*
(6)	Option Agreement, dated January 19, 1984, between McGregor and Faberge, Incorporated, filed as Exhibit (c)(2) to McGregor's Schedule 14D-1, filed with the Commission on January 23, 1984, which is incorporated herein by reference.	*
(jj)	Merger Agreement, dated as of February 19, 1985, between McGregor and Rapid Subsidiary Corporation, set forth as Exhibit A to the Proxy Statement of McGregor, filed with the Commission on February 20, 1985, which is incorporated herein by reference.	*
(kk)(1)	Second Amended and Restated Stock Purchase and Financing Agreement, dated December 23, 1983, between Schottenstein Stores Corporation and HRT Industries, Inc., filed as Exhibit A to Exhibit 3 to the Schedule 13D of McCrory, M&S Joint Venture and Schottenstein Stores Corporation, filed with the Commission on March 23, 1984 (the "Schedule 13D"), which is incorporated herein by reference.	*
(2)	Joint Venture Agreement, dated December 14, 1983, between McCrory and Schottenstein Stores Corporation, Addenda Numbers 1 and 2 thereto, and agreement dated February 8, 1984, with respect thereto, filed as Exhibit 5 to the Schedule 13D, which is incorporated herein by reference.	*

Exhibits		Page No.
(3)	Assignment and Assumption Agreement, dated December 23, 1983, between Schottenstein Stores Corporation and M&S Joint Venture, filed as Exhibit G to Exhibit 4 to the Schedule 13D, which is incorporated herein by reference.	*
(4)	Option Agreement, dated March 13, 1984, between McCrory and Schottenstein Stores Corporation, filed as Exhibit 7 to the Schedule 13D, which is incorporated herein by reference.	*
(5)	Loan Agreement, dated as of March 13, 1984, among HRT Industries, Inc., Karl's Shoe Stores, Ltd., and Manufacturers Hanover Trust Company, filed as Exhibit 8 to the Schedule 13D, which is incorporated herein by reference.	*
(6)	Guaranty and Note Purchase Agreement, dated March 13, 1984, between McCrory and Manufacturers Hanover Trust Company, filed as Exhibit 9 to the Schedule 13D, which is incorporated herein by reference.	*
(ll)	Letter Agreement, dated September 18, 1984, between Rapid and HRT, with respect to Rapid's commitment to advance HRT up to $27,000,000, filed as Exhibit 28.3 to the McCrory Registration Statement, which is incorporated herein by reference.	*
(mm)	Merger Agreement, dated as of March 15, 1985, between HRT and McCrory Subsidiary Corporation, set forth as Exhibit A to the Proxy Statement of HRT, filed with the Commission on March 22, 1985, which is incorporated herein by reference.	*
(nn)	Stock Purchase Agreement, dated as of August 20, 1984, between McCrory and Otasco Holding Corp., filed as Exhibit 10(n)(1) to the McCrory Registration Statement, which is incorporated herein by reference.	*
(oo)	Security and Pledge Agreement, dated October 23, 1984, between Otasco Holding Corp., and McCrory, filed as Exhibit 10(n)(2) to the HRT Registration Statement, which is incorporated herein by reference.	*
(pp)	Note and Preferred Stock Registration Rights Agreement, dated as of January 15, 1985, among Rapid, Rapid-American Holding Corporation, and purchasers of 16% Notes of Rapid-American Holding Corporation.	E-30 ***
(qq)	Tax Sharing Agreement, dated as of January 15, 1985, between Rapid and Rapid-American Holding Corporation.	E-31 ***

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* Incorporated by reference.

** For a description of Rapid's other long-term indebtedness, see Note 8 to Financial Statements. Rapid agrees to furnish to the Commission copies of such instruments upon its request.

*** Exhibit omitted.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS COMBINED

	Year Ended January 31,				
	1985	1984	1983	1982	1981
	(In Millions, Except Ratios)				
Earnings as defined:					
Income (loss) from continuing operations before provision (benefit) for income taxes and extraordinary items (1)	$ (9.1)	$ 19.3	$(12.1)	$(50.7)	$(32.4)
Add: Fixed charges as defined:					
Interest and debt expense	180.5	116.9	138.9	143.6	103.4
One third of annual rents (2)	20.2	18.1	17.0	16.3	15.7
Fixed charges (excluding capitalized interest)	200.7	135.0	155.9	159.9	119.1
Capitalized interest		.6	2.4	1.0	
Preferred dividend requirements (3)	1.5	1.5	1.7	3.7	17.2
Total fixed charges and preferred dividend requirements as defined	202.2	137.1	160.0	164.6	136.3
Total earnings as defined	$191.6	$154.3	$143.8	$109.2	$ 86.7
Ratio of earnings from continuing operations to fixed charges and preferred dividends combined	*	1.13	*	*	*

* Earnings from continuing operations were not sufficient to cover fixed charges and preferred dividends combined by $10.6 million, 1985; $16.2 million, 1983; $55.4 million, 1982; and $49.6 million, 1981.

(1) Income (loss) from continuing operations before provision (benefit) for income taxes and extraordinary items per statements of consolidated operations .	$(12.7)	$ 18.1
Minority interest	3.6	1.2
	$ (9.1)	$ 19.3

(2) Representative of the interest factor relating to rental expense.

(3) Consolidated preferred dividends on a pretax basis.

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

The following table sets forth certain information, as of April 19, 1985, with respect to the subsidiaries of Rapid, other than certain subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Parent (1)		
Subsidiaries of Rapid:		
McCrory Corporation	100%(2)	Delaware
Schenley Industries, Inc.	100%	Delaware
McGregor Corporation	100%	New York
Rapid Typographers Company, Inc. ...	100%	Delaware
Rapid Distribution Service, Inc. ...	100%	Delaware
RAAM Information Services Corporation	100%	Delaware
View Top Corporation	100%	Delaware
Schenley Medical Imaging, Inc.	100%	Delaware
Subsidiaries of McCrory:		
J. J. Newberry Co.	100%	Delaware
HRT Industries, Inc.	100%(3)	Delaware
S. Klein Department Stores, Inc. ...	100%	New York
Subsidiary of Newberry:		
J. J. Newberry Canadian Ltd.	100%	Canada
Subsidiaries of Schenley:		
AGE Bodegas Unidas, S.A.	49.3%	Spain
Distributors of New England, Inc. ..	100%	Mass.
Dreyfus-Ashby & Co. Limited	100%	United Kingdom
Dubonnet Wine Corporation	100%	New York
L.E. Jung & Wulff Co., Inc.	100%	New York
Knickerbocker Market Research Corp..	100%	New York
Schenley Affiliated Brands Corp. ...	100%	New York
Schenley Distillers, Inc.	100%	Delaware
Schenley Enterprises, Inc.	100%	Delaware
Schenley Far East, Ltd.	100%	Japan
Schenley International Co. Inc.	100%	Delaware
Virgin Islands Rum Industries, Ltd..	100%	Virgin Islands
Subsidiaries of Knickerbocker Market Research Corp.:		
Merit House, Inc.	100%	Delaware
World Network, Inc.	100%	Delaware

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Subsidiary of Schenley Distillers, Inc.:		
Tennessee Dickel Distilling Co.	100%	Tennessee
Subsidiary of Schenley Medical Imaging, Inc.:		
Digital Imaging Company of America, Inc.	80%	Delaware
Subsidiaries of McGregor Corporation:		
Faberge, Incorporated	100%	Minnesota
BTK Industries, Inc.	100%	Delaware

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(1) For information concerning Rapid-American Holding Corporation, see "Introductory Note" and Item 12 - "Security Ownership of Certain Beneficial Owners and Management."
(2) Rapid has approximately 100% of the voting power except for the election of directors where it has approximately 81% of such voting power.
(3) See Note 3 to Financial Statements.